


WORKSAFEBC 2012 ANNUAL REPORT

& 2013–2015 SERVICE PLAN


WORKSAFEBC

WorkSafeBC 2012 Annual Report and 2013–2015 Service Plan

Our Performance

Our Finances

Appendices

WORK SAFE BC

Strategic Foundations of WorkSafeBC

WorkSafeBC (the Workers' Compensation Board of British Columbia) is an independent statutory agency governed by a board of directors appointed by the provincial government. It covers 2.19 million workers and almost 215,000 employers throughout B.C., and is funded through insurance premiums paid by registered employers and investment returns. In administering the *Workers Compensation Act* (the Act), WorkSafeBC remains separate and distinct from government; however, WorkSafeBC is accountable to the public through the provincial government, which is responsible for protecting and maintaining the overall well-being of the workers' compensation system.

Vision

British Columbians free from workplace injury, disease, and death

Mission

- Champion safe and healthy workplaces
- Save lives and prevent injury and disability
- Deliver outstanding service to workers and employers
- Provide and support excellent medical and rehabilitative care to workers
- Preserve the financial integrity and sustainability of the system
- Learn, lead, and share

Priorities of the Board of Directors

- Eliminate serious injury and death in the workplace
- Improve return-to-work outcomes and prevent avoidable disability
- Maintain an effectively operating business
- Maintain a system with long-term sustainability that contributes to the societal benefits envisaged by the historic compromise
- Respond effectively to changing social and economic realities

Our goals

(For more information, see page 22)

1. Foster the improvement of occupational health and safety in workplaces and communities
2. a. Improve service to stakeholders — improve return-to-work outcomes, disability prevention, overall customer service, accessibility, and public confidence

   b. Improve service to stakeholders — improve adjudicative decision making throughout the organization, ensuring stakeholders receive their full legal entitlements
3. Maintain the cost-effectiveness and accountability of the services WorkSafeBC delivers
4. Maintain financial security, sustainability, and stability

Shared values

As an organization and as individuals, we make decisions and take action based on these values:

Service
Making a difference one human being at a time

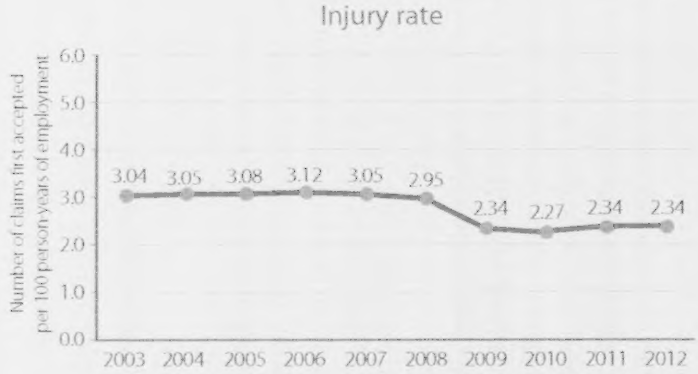
Integrity
Doing the right thing

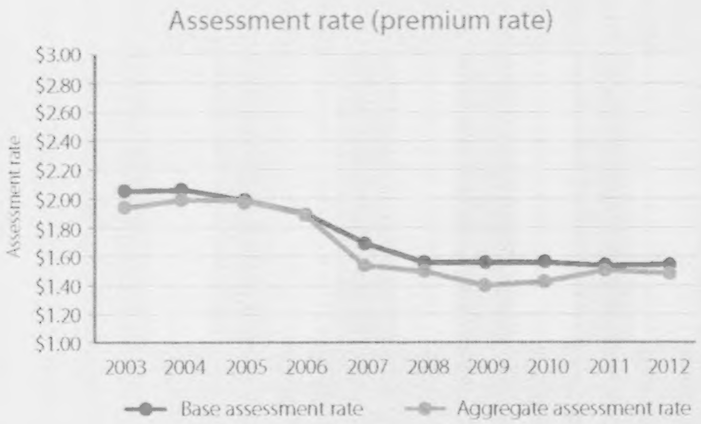
Accountability
Open and transparent

Partnership
Collaborating for success

Innovation
Challenging complacency

Operational Highlights

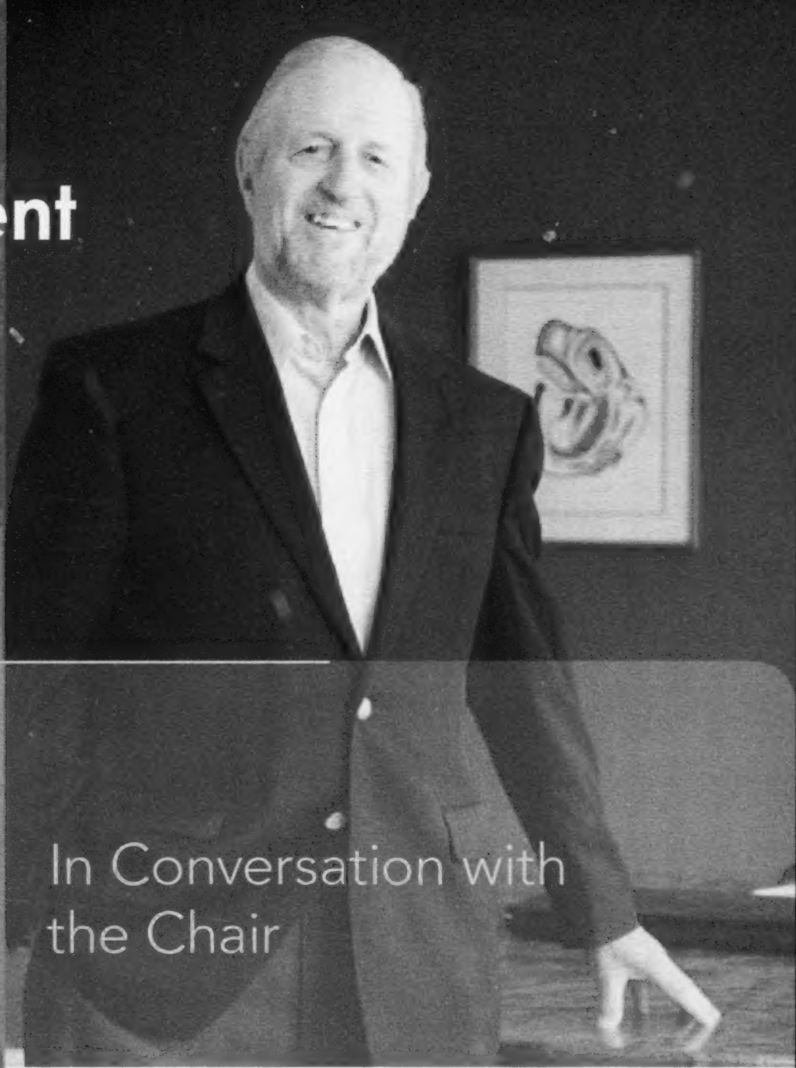




Key financial comparatives ($ millions)	2012	2011
Premium income	1,163	1,145
Investment income	1,128	488
Other income	11	9
Claim costs	2,249	1,645
Administration costs*	179	160
Other costs	36	50
Surplus (deficit) from operations	(162)	(213)
Actuarial gains (losses) on employee benefit plans	(33)	(87)
Total comprehensive income (loss)	(195)	(300)
Total assets	13,152	12,548
Total liabilities	10,802	10,004
Unappropriated balance	1,087	1,046
Reserves	1,552	1,755
Accumulated other comprehensive income (loss)	(290)	(257)
Market rate of return on investment	9.5%	4.1%

*Net of claim administration costs: 2012 — $243 million; 2011 — $229 million.

Q&A with the Chair and President



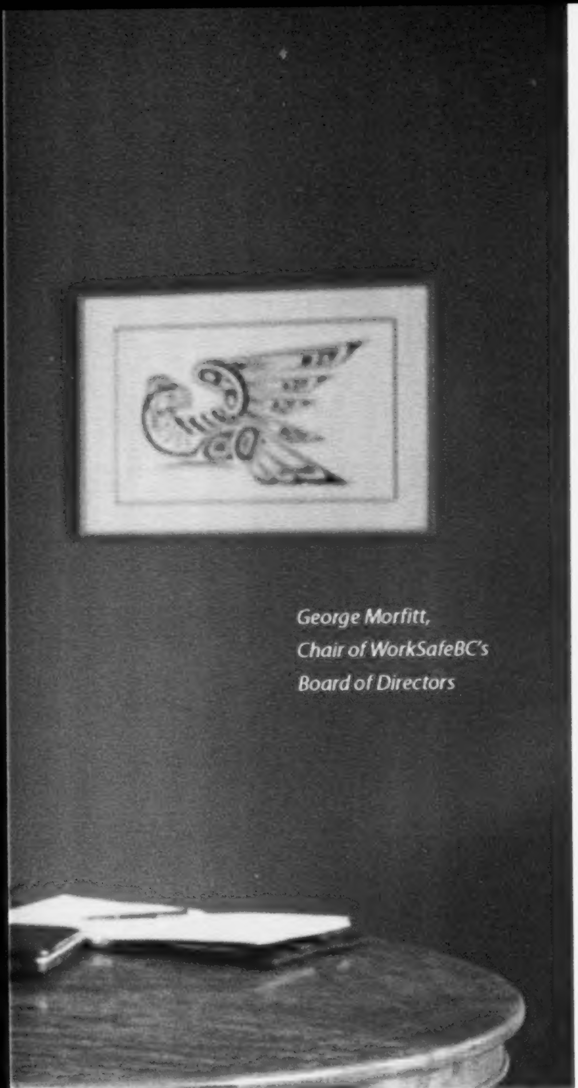
In Conversation with the Chair

Q. What does WorkSafeBC's financial health look like?

A key responsibility of our Board of Directors is ensuring the Accident Fund[1] is properly capitalized so we can meet our commitments to injured workers and ensure their families will always be cared for financially.

Financial markets have been volatile in the last few years. Investment income was higher in 2012 than 2011, but increasing pressure on claims costs — predominantly coming from health care expenses — is an ongoing concern. Still, we have achieved a funding ratio of 122 percent for 2012, among the best of Canadian workers' compensation boards. Further, B.C.'s premium rates continue to be some of the lowest in Canada.

A stable and well-funded compensation system benefits all British Columbians. Employers remain free from work-related injury lawsuits and pay affordable rates, while injured workers receive benefits that are among the best in Canada.



George Morfitt,
Chair of WorkSafeBC's
Board of Directors

Q. In 2012, WorkSafeBC implemented a new strategic plan. What are some of the highlights?

Our new strategic plan, *Safe Work & Outstanding Service 2012–2017*, builds on the direction and vision of the previous plan but places a greater priority on certain aspects of our business. It identifies challenges such as the serious injury rate, occupational disease, economic turmoil, and social health issues as key areas of focus. It also recognizes the changing aspects of British Columbia's workforce, including demographics, the impact of foreign workers, and new communications platforms such as social media, and wireless technology.

Although the strategic plan is still relatively new, we're already making progress in several areas and turning our attention to additional prevention strategies to target emerging issues and improve our on-the-ground inspection capabilities.

We've established a Memorandum of Understanding with the western provinces on occupational exposure limits for workplace substances. This Memorandum of Understanding will facilitate scientific knowledge-sharing, enhance the ability of industries to achieve proposed occupational exposure limits, determine sound estimates of worker exposures, and more.

Another example is our commitment to ensuring greater access to our programs for British Columbia's diverse population. In 2012, our seven non-English web portals combined to attract 91,891 visits, while our phone interpretation services — available in 170 languages — fielded 11,734 calls.

We've also approved an enhanced business continuity plan so we can continue delivering services on behalf of B.C.'s workers and employers in the face of any disruption caused by an earthquake or other unexpected event. We can quickly transfer operations to a safe area that will enable our work, such as processing injured workers' compensation payments, to continue.

Q. How is WorkSafeBC positioned for the future?

We have a sound system here in B.C. demonstrated by the positive injury rate trend in the past 10 years, and characterized by various injury prevention programs, as well as competitive rates and benefits — a system the other directors and I are confident is well positioned to meet the challenges the future will undoubtedly bring.

Many perspectives are brought to the Board table: the views of workers, employers, disability prevention, health care, actuarial science, and the public interest. The competence, diversity, and range of views represented in the Board of Directors are vitally important to the ongoing health of our compensation system, and in providing sound governance for the organization.

As a Board, our job is to both challenge and support the executive and staff in achieving the best results possible in the service of B.C.'s workers and employers. So while we rise to the challenges of tomorrow, we should also take pride in the accomplishments reflected in this report.

In Conversation with the President

Q. The past year was marked by explosions at two B.C. sawmills. How did WorkSafeBC respond to these events?

In 2012, we saw two devastating explosions in Burns Lake and Prince George that led to the deaths of four workers and seriously injured many more. During the course of our investigations into the causes of those incidents we released safety information to the industry on potential fuel and ignition sources, among other information and measures. At the conclusion of our investigations, we made the decision to refer both matters to Crown Counsel for consideration. We also engaged in an extensive industry-wide inspectional program to ensure all mills and similar operations were in compliance with safety regulations and standards.

Staff from our claims department have worked diligently to support the workers injured in these explosions. A large number of workers suffered severe burns; others suffered physical and psychological traumas. While many injured workers have recovered and returned to work, others still require ongoing assistance with their recovery. We continue to provide these workers and their families with the services they need — whether it involves physiotherapy, home modifications, or upgrading their skills.

Q. What were WorkSafeBC's successes and challenges in 2012?

This year we were successful in several core areas of our operations that benefit those we serve — the workers and employers of British Columbia. The injury and serious injury rates remained relatively stable and near historic lows in 2012. And, the time has been shortened between when a worker's claim is accepted and when he or she is first paid benefits. By the end of the year, the wait time for short-term disability compensation was reduced by about 9.6 percent, which translates into better results for injured workers. This is reflected in our highest-ever rating for service to workers, as reported by the workers we served. Our service ratings for employers are also near an all-time high.

But, we continued to face challenges in 2012.

Our ability to return severely injured workers (i.e., workers requiring vocational rehabilitation) to meaningful work exceeded our target for 2012. However, we fell short of our 2012 target in returning injured workers on short-term disability to meaningful work within 26 weeks, partially due to a relatively high unemployment rate in B.C. This aspect of our work remains a challenge for both WorkSafeBC and employers in an economy that has not been rapidly expanding.

While investment returns were better than expected, at 9.5 percent, gains were offset somewhat by higher claims costs. Increased cost and utilization of health care services, and longer life expectancies of injured workers receiving pension and medical benefits, were some of the drivers of the additional claim costs.

Base premium rates were flat in 2012, as we forecast in 2011; they'll likely rise modestly over time as past surpluses allowed us to discount the rates charged to a level below actual costs.

At the same time, surplus investment returns[2] are unlikely to be as robust as they were in the past. Our investment policies are prudent and will help mitigate market volatility,

David Anderson, WorkSafeBC President and Chief Executive Officer

while positioning us for future market growth. But, there is no question that uncertainty and weakness in markets have affected our ability to continue to contain premium rates to a level below actual cost rates, as we have in recent years.

Amendments to the *Workers Compensation Act* introduced new standards regarding compensation for mental disorders. These claims can be complex and we have increased staffing to address that. We also began policy consultation with our stakeholders on issues of bullying and harassment in the workplace and expect the consultation will be concluded, with a new policy approved, in 2013.

Q. Will the challenges of 2012 change WorkSafeBC's approach going forward?

Our prevention strategies have contributed to moving injury levels to historic lows. We are, however, exploring a more refined prevention plan that will increase safety officer visibility, enhance our ability to track and respond to leading indicators of risk, and advise industries accordingly. We are also establishing a highly trained team to deal exclusively with mental disorder claims arising from Bill 14,[1] which requires a unique set of skills to evaluate and adjudicate claims. We will continue working with employers and labour organizations through awareness and education campaigns to assist injured workers achieve healthy and durable return to work. We know that returning workers safely to the workforce is important to the worker's health, and employers accommodating workers during the process is key to a long-lasting recovery. This message is resonating in B.C., and we'll continue to champion it.

Q. What lies ahead in 2013 and beyond for WorkSafeBC?

The workers' compensation system is not immune to broad societal changes, like an aging workforce, increasing number of foreign workers, work-related mental health issues, and an uncertain economy. The way the world communicates has changed with the rapid shifts in social media and continuous high-speed wireless connectivity.

Part of our job involves identifying and monitoring these changes, and responding effectively. I think we've done well in this regard and I'll give a few examples. We've developed a new online exposure registry — for workers who have been exposed to harmful substances such as asbestos and volatile organic compounds (chromium, silica, and so forth). The information obtained through the registry will assist us in adjudicating future claims for workers, who may have been exposed to substances that later develop into occupational diseases, and help identify and prevent the risk of occupational disease.

We also continue expanding our social marketing initiatives through a variety of communications channels. For instance, we post all our health and safety videos on our YouTube channel, which has realized more than 13 million views to date. And, we continue to offer our services in hundreds of languages — thanks to a real-time interpretation service — so virtually no British Columbian is isolated from the compensation system due to a language barrier.

We will be ever-vigilant of the challenges the future holds, preparing in ways that enhance worker safety while continuing to improve British Columbia's overall compensation system.

About WorkSafeBC

WorkSafeBC is dedicated to the reduction and eventual elimination of work-related injury, disease, and death in B.C. workplaces. When workers do get sick, injured, or killed on the job, WorkSafeBC is committed to easing the physical, financial, and psychological burdens on these workers and their families.

WorkSafeBC has legislated responsibility for establishing and enforcing occupational health and safety standards; compensating and rehabilitating injured, ill, and disabled workers, or providing benefits to their dependants; and, assessing and collecting employer premiums to support and administer the workers' compensation system. To meet these responsibilities, WorkSafeBC focuses on the following areas of business.

Preventing workplace injury and death

WorkSafeBC's vision is to keep workers and workplaces safe and secure from injury, disease, and death. In support of this goal, WorkSafeBC establishes standards and guidelines for occupational health and safety practices; educates and consults with workplace stakeholders; raises public awareness; and builds partnerships with industry safety associations, unions, and other key stakeholders to improve health and safety in B.C. workplaces. WorkSafeBC also has the legislative authority to monitor compliance with occupational health and safety law and regulation; investigate serious incidents; and, in certain cases, levy financial penalties or other sanctions against employers for safety infractions.

Compensating and rehabilitating injured workers

When work-related injuries and illnesses do occur, WorkSafeBC makes entitlement decisions regarding compensation benefits and administers health care and wage-loss benefits, permanent disability benefits, and survivor benefits. WorkSafeBC also works with external partners to rehabilitate injured workers and return them to safe, lasting employment.

Maintaining the system's financial sustainability

WorkSafeBC assesses and collects employer premiums and invests those funds to cover current and future costs of compensation benefits as well as the costs of administering the workers' compensation system. WorkSafeBC is committed to sound financial management and has programs and strategies in place to manage costs and investment returns, and maintain the long-term financial sustainability of the system.

Ensuring ethics and integrity are paramount

Within WorkSafeBC, ethics and integrity govern our daily work. Internally, we use various means to maintain checks and balances and ensure fairness in everything we do. As the first level of appeal our Review Division provides a simplified and flexible process for obtaining an independent review of

specific decisions, while our Fair Practices Office serves as an independent and impartial source of assistance for individuals navigating the workers' compensation system. As much of the information our team deals with is confidential, we have an office dedicated to ensuring WorkSafeBC is meeting its obligations under the *Freedom of Information & Protection of Privacy Act* (FIPPA). We also have an Internal Audit department that supports the Board and WorkSafeBC's senior management by providing independent and objective assurances. Our Board of Directors ensures that the public is given priority and includes broad and balanced representation from B.C.'s worker, employer, and health care/rehabilitation communities.

Protecting workers and employers since 1917

In some jurisdictions, workers can sue their employers for damages if they suffer work-related injuries. That is not the case in British Columbia, because of what is known as the historic compromise. Under the compromise, workers relinquished their right to sue their employers or fellow workers for injuries, disease, and death sustained in the workplace. In exchange, employers agreed to fund a no-fault insurance system. Today, the historic compromise remains the basis of workers' compensation in B.C. and Canada.

Our historic roots

The Meredith Report

The year 2013 marks 100 years since the Meredith Report, an historic milestone in the field of workers' compensation. The report, developed by Sir William Meredith, lawyer, politician, and judge, is based on five guiding principles:

No-fault compensation: Workplace injuries are compensated regardless of fault. The worker and employer waive the right to sue. There is no argument over responsibility or liability for an injury.

Collective liability: The total cost of the compensation system is shared by all employers who contribute to a common fund.

Security of payment: A fund is established to guarantee that compensation monies will be available and injured workers are assured of prompt compensation and future benefits.

Exclusive jurisdiction: All compensation claims are directed solely to the compensation board.

Independent board: The governing board is both autonomous and non-political. The board is financially independent of government or any special interest group.

Workers' compensation in British Columbia

These principles are an historic compromise and provide the foundation upon which the majority of Canadian workers' compensation legislation is built.

Each class surrenders to the State certain rights…The employer in submitting to the levy…upon his industry receives the benefit of protection from expensive litigation. The workman in return, though he loses the precarious right to sue in tort for damages, receives…a stipulated amount based upon his economic position in the community. Both, as well as the State as a whole, benefit from the elimination of the friction and loss which necessarily attends all litigation.

— *B.C. Sessional Papers, Volume II, 1914:M13*

Financial Context

The financial information contained in this annual report and service plan conforms to the audited consolidated financial statements (see page 65), except for the additional financial information, as noted, based on the smoothed accounting approach.

In accordance with International Financial Reporting Standards (IFRS), our consolidated financial statements reflect the market value of investments and fair value of post-employment employee benefit plan assets and liabilities at the end of the reporting year (fair value accounting). They provide a snapshot or point-in-time reading of financial assets and liabilities. Short- and long-term financial market fluctuations are reflected in the financial results.

Since WorkSafeBC's investments are intended to yield returns over the long term, any short-term losses should not necessarily signal the need to increase premium rates or for government to consider reducing worker benefits. Similarly, short-term gains in asset value do not necessarily mean funds are available to lower employer premium rates or suggest there is capacity for government to increase worker benefits. To avoid rate fluctuations generated by financial market volatility, WorkSafeBC continues to set premium rates using smoothed accounting, based on a standard of practice established for all workers' compensation organizations in Canada by an independent study conducted in the early 1990s. Smoothed accounting amortizes investment returns, along with actuarial gains or losses relating to WorkSafeBC's post-employment employee benefit plan assets and liabilities, over a five-year period that moderates the effect of capital market volatility on financial results. This approach takes into account the unique business requirements of Canadian workers' compensation systems, including the need for pricing stability (for employer premium rates) and benefit sustainability (for injured workers and their dependants).

A 10-year summary table (unaudited), prepared based on the smoothed accounting approach, is available online at www.worksafebc.com/publications/reports/annual_reports.

Prudent investment promotes sustainability

To ensure the long-term financial sustainability of the workers' compensation system in British Columbia, the *Workers Compensation Act* (the Act) stipulates that present and anticipated future costs arising from an injury in a given year should be collected through assessments on employers whose accounts are active in that year. WorkSafeBC also seeks to promote the sustainability of the workers' compensation system through prudent investment of the Accident Fund.[1] The primary determinant of the Accident Fund's risk and expected return is the asset mix of its investment portfolio, determined by WorkSafeBC's Board of Directors with the advice of an Investment Committee that includes three independent external investment experts, WorkSafeBC's President and Chief Executive Officer, Chief Financial Officer, Chair of the Audit Committee, and one other Board-appointed member. The minimum long-term objective of the Investment Committee is to earn a real rate of return (the rate of return over inflation) of 3.5 percent, slightly higher than the 3.0-percent discount rate used to determine the Fund's actuarial liability.

The Board of Directors regularly reviews and updates a statement of investment policies and goals for the investment portfolio. Among other objectives, this statement sets out an asset allocation policy that guides the investment strategies. Currently, 33 percent of the Accident Fund's investment portfolio is targeted

to fixed-income investments such as bonds and mortgages (with a permissible range of 20 to 45 percent). Another 39 percent is allocated to Canadian and international public and private equities (with a permissible range of 25 to 50 percent). The final 28 percent is allocated to inflation-sensitive investments, such as inflation-linked bonds, real estate, and infrastructure assets (with a permissible range of 15 to 40 percent).

Funding policy offers protection

In 2007, WorkSafeBC's Board of Directors approved the creation of a Capital Adequacy Reserve to address the organization's long-term capital requirements. This reserve offers greater security for worker benefits and reduces premium rate volatility by strengthening the organization's ability to withstand economic and demographic uncertainties (see Note 11 of the consolidated financial statements, page 104).

WorkSafeBC assesses its financial strength using two main indicators. The primary indicator is the ratio of total assets to a specific target asset level as defined in key objective/performance indicator #8 (see page 36). This indicator, unique to WorkSafeBC, tracks the organization's ability to withstand the impact of large financial shocks, such as the stock market losses that occurred in 2008 and 2011. At the end of 2012, this indicator was at 89 percent of the target asset level. The long-term goal is to build this indicator to 100 percent. In the near term, the indicator is expected to decrease to 81 percent as we anticipate having to draw down the Capital Adequacy Reserve to limit premium rate increases.

The second indicator determines the funding level, or the ratio of assets to liabilities, an indicator of financial strength used by other workers' compensation boards in Canada (see Appendix B, page 117). At the end of 2012, WorkSafeBC's funding level was 122 percent.

Governance — WorkSafeBC Board of Directors

Rick Roger

Public interest representative
BA, MSHA

Appointed January 2009

Former CEO of the Vancouver Island Health Authority and the Vancouver/Richmond Health Board; British Columbia Institute of Technology (BCIT) board member

Joe Lindgren

Employer representative
BA (Hons), C.Dir

Appointed January 2009

Small business owner; president of Lincor Enterprises Ltd.; trustee of the Construction Industry's Benefit Plan; director of the Vancouver Resource Society

Henry Harder

Health care & rehabilitation representative
BEd, MA, EdD

Appointed April 2008

Registered psychologist; professor and chair of health sciences at the University of Northern British Columbia

Phillip Legg

Worker representative
BA, C.Dir

Appointed January 2009

Director of policy and communications for the Federation of Post-Secondary Educators of BC; Community Savings Credit Union board member

Tazeem Nathoo

Public interest representative
ICD.D

Appointed November 2010

Executive coach and senior consultant with Western Management Consultants; Citizens Bank of Canada board member, BCAA board member

Alan Cooke

Actuary
FCIA

Appointed December 2012

Actuary with experience in insurance, pensions, disability plans, financial reporting and investments; trustee of the Healthcare Benefit Trust; vice-chair of Actuaries Without Borders

George Morfitt

Chair
BCom, FCA

Appointed May 2010 (Director since 2006)

Adjunct professor at the University of Victoria's School of Public Administration; former Auditor General of British Columbia

David Anderson

WorkSafeBC President and Chief Executive Officer
MBA, FCHRP, C.Dir

Appointed December 2003
Ex officio

Former WorkSafeBC VP Rehabilitation & Compensation Services and VP Human Resources; senior executive positions in both the public and private sectors

Duties

According to the *Workers Compensation Act* (the Act), the Board of Directors must:

- Set and revise, as necessary, the policies of the Board of Directors, including policies respecting compensation,[3] assessment, rehabilitation, and occupational health and safety
- Set and supervise the direction of WorkSafeBC
- Select the president of WorkSafeBC and determine the president's functions
- Approve the operating and capital budgets of WorkSafeBC
- Establish policies and accounting systems to ensure adequate funding of the Accident Fund
- Approve major programs and expenditures of WorkSafeBC
- Approve the investment of WorkSafeBC funds in accordance with the requirements imposed under the Act
- Plan for the future of WorkSafeBC
- Enact bylaws and pass resolutions for the conduct of WorkSafeBC's business and the functions of the Board of Directors, including enacting bylaws regarding the manner in which the policies of the Board of Directors are to be published
- Each year, provide the Minister of Labour with a service plan that addresses the three-year period starting on January 1 of that year and achieves the following:[4]
    - Sets out WorkSafeBC's priorities
    - Identifies specific objectives and performance measures for WorkSafeBC
    - Provides a fiscal forecast for WorkSafeBC, including a statement of all material assumptions and policy decisions underlying the forecast
    - Compares actual results of the previous year with the expected results identified in the previous year's service plan
    - Presents other information WorkSafeBC considers appropriate

Priorities of the Board of Directors[5]

- Eliminate serious injury and death in the workplace
- Improve return-to-work outcomes and prevent avoidable disability
- Maintain an effectively operating business
- Maintain a system with long-term sustainability that contributes to the societal benefits envisaged by the historic compromise
- Respond effectively to changing social and economic realities

Major accomplishments

In 2012, major accomplishments of the WorkSafeBC Board of Directors included:

- Maintaining a strong financial position despite continued uncertainty in the financial markets
- Concluding a Memorandum of Understanding with the provincial governments of Alberta, Saskatchewan, and Manitoba on collaboration and information-sharing on occupational exposure limits
- Establishing a working group of officials responsible for occupational health and safety in Alberta, Saskatchewan, and Manitoba to collaborate on various health and safety issues
- Completing a comprehensive revision of WorkSafeBC's health care policies to improve decision making and enhance client satisfaction
- Approving a newly revised business continuity plan to address risks, especially for our Lower Mainland operations, including contingencies to ensure operations can continue offsite in the event of a natural disaster or other unexpected disruption to WorkSafeBC's operations
- Approving a series of amendments to the Occupational Health and Safety Regulations to enhance on-the-job safety, including changes to requirements on chemical and biological agents, tools and machinery, ladders and scaffolds, fall protection, electrical safety, and forestry operations
- Funding six Innovation at Work projects targeting practical, shop-floor solutions to improve workplace safety throughout the province
- Funding four Research at Work projects enhancing knowledge and understanding of safety issues in B.C. and related projects
- Implementing a new strategic plan, *Safe Work & Outstanding Service 2012–2017*, setting WorkSafeBC's direction over a five-year period

Committees

In 2012, the Board of Directors met eight times, which included one governance and planning session. Board committees met as follows:

- Audit Committee — six times
- Human Resources and Compensation Committee — four times
- Policy, Regulation, and Governance Committee — five times

Decisions

The Board of Directors makes decisions on policy and regulation affecting the workers and employers of British Columbia. The Board's decisions can affect the premium rates employers pay and the level of benefits workers receive. As part of its commitment to remaining open and accountable to its stakeholders and the general public, WorkSafeBC posts the Board of Directors' decisions, and its formal resolutions, at www.worksafebc.com/regulation_and_policy/policy_decision/board_decisions/default.asp.

Accountability

The *2012 Annual Report and 2013–2015 Service Plan* was prepared under our direction in accordance with the *Workers Compensation Act*. WorkSafeBC is accountable for the results achieved, for selecting the performance indicators, and for how our performance has been reported.

The information contained in this document reflects the actual performance of WorkSafeBC for the 12 months beginning January 1, 2012, and ending December 31, 2012. All material fiscal assumptions and policy decisions up to April 19, 2013 have been considered in developing this publication.

This annual report and service plan presents a comprehensive picture of our actual performance against targets set in the *2011 Annual Report and 2012–2014 Service Plan*. It also includes estimates and significant interpretive information representing the best judgement of WorkSafeBC management. The indicators reported are consistent with the organization's mission, goals, and objectives, and focus on aspects critical to understanding WorkSafeBC's performance. We are responsible for ensuring WorkSafeBC's performance information is measured accurately and in a timely manner. Any significant limitations in performance data reliability have been identified and explained.

This report and service plan has been prepared in accordance with B.C. Reporting Principles and is intended for a general audience. More detailed information about WorkSafeBC is available on our website at WorkSafeBC.com.

On behalf of the Board of Directors and management of WorkSafeBC,

George Morfitt, BCom, FCA
Chair, Board of Directors
WorkSafeBC

David Anderson, MBA, FCHRP, C.Dir
President and Chief Executive Officer
WorkSafeBC

Our Performance

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Workers' Compensation Board of British Columbia, and To the Minister of Jobs, Tourism and Skills Training and Minister Responsible for Labour, Province of British Columbia

I have audited the *2012 Annual Report and 2013-2015 Service Plan* (the annual report) of the Workers' Compensation Board of British Columbia (WorkSafeBC) to assess whether performance has been fairly presented in accordance with the BC Reporting Principles for the year ended December 31, 2012. The eight BC Reporting Principles outline the characteristics of good performance reporting, and were endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts in 2003 for use by public sector organizations in British Columbia. This annual report is the responsibility of WorkSafeBC's management. My responsibility is to express an opinion on this annual report based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Accordingly, I planned and performed an audit to obtain reasonable assurance that the BC Reporting Principles have been incorporated in the annual report. My audit included examining, on a test basis, evidence supporting the amounts and disclosures in the annual report and assessing significant estimates underlying reported performance.

I have audited the entire annual report to assess whether it has been prepared in accordance with the BC Reporting Principles. A separate audit, to determine if WorkSafeBC's financial statements have been prepared and reported in accordance with International Financial Reporting Standards, was also conducted. My opinion is provided on page 67.

As called for by the BC Reporting Principles, the annual report contains a number of representations from management concerning the appropriateness of the goals, objectives, and targets established by WorkSafeBC, explanations of the adequacy of planned and actual performance, and expectations for the future. Such representations are the opinions of management and inherently cannot be subject to independent verification. Therefore, my examination was limited to ensuring the report contains those representations called for by the BC Reporting Principles and that they are consistent with the audited performance information and financial statements.

In my opinion, this annual report fairly presents, in all significant respects, the performance of WorkSafeBC for the year ended December 31, 2012, in accordance with the BC Reporting Principles. The following appendix contains details supporting my conclusion for each of the BC Reporting Principles, and is an integral part of my opinion.

Victoria, British Columbia
April 26, 2013

John Doyle, MAcc, FCA
Auditor General

Detailed Observations

Principle 1 – Explain the Public Purpose Served

The report explains WorkSafeBC's public purpose, enabling legislation, and mission. Core business areas, services, clients, and stakeholders are described, as is the role of partners. The report explains WorkSafeBC's governance structure and external accountabilities. The report outlines WorkSafeBC's values that guide its service delivery (guiding principles and premises).

Principle 2 – Link Goals and Results

The report explains the chain of events from mission to goals, objectives, and strategies through to performance measures. The relevance of these measures is explained in the context of WorkSafeBC's goals and objectives, and in relation to issues of concern to an external audience (the public and legislators). Performance measurement focuses on outcomes in the short and long term, explaining how short-term achievements impact long-term results. Variances between planned and actual results are explained and related to expectations and plans for the future.

Principle 3 – Focus on the Few, Critical Aspects of Performance

The report states why goals, objectives, and 11 key objective/performance indicators are important to WorkSafeBC and to an external reader. The performance information provides a clear and concise performance story. Key results are clear and readily apparent.

Principle 4 – Relate Results to Risk and Capacity

The report summarizes key risks and capacity issues in relation to each key objective/performance indicator, their impact on results, and strategies for dealing with them in the future. Issues related to organization-wide financial, infrastructure and technology risks and capacity are discussed separately.

Principle 5 – Link Resources, Strategies and Results

Revenue and expense variances are described as part of management's commentary on the financial statements. Costs are related to key business activities and goals. Planned and actual amounts are provided for key revenue and expense items. Critical measures of efficiency are identified — administrative efficiency is the focus of one key objective/performance indicator, and operational financial performance is the focus of another.

Principle 6 – Provide Comparative Information

Actual performance is clearly reported in relation to the service plan. Current performance is graphically related to historic trends, and related to relevant industry benchmarks. Inconsistencies in trend data are fully explained, and future performance targets are explained in the context of current performance.

Principle 7 – Present Credible Information, Fairly Interpreted

I am providing a high level of assurance that the data supporting the 11 key objective/performance indicators is reliable. Systems to compile performance indicator data have been established and documented, although I do not provide assurance on the effectiveness of the control environment. The report is reasonably concise and specialized terminology has been largely avoided.

Principle 8 – Disclose the Basis for Key Reporting Judgments

The report provides explanations for how performance indicators are derived and the period to which data relates. WorkSafeBC's Chair and Chief Executive Officer have affirmed their ownership of the report, and their responsibility for ensuring the accuracy and timeliness of performance information. The report explains the importance and relevance of goals and objectives, and it discusses how targets are selected.

Our Performance

Measuring our performance

WorkSafeBC uses a set of objectives and associated key performance indicators that allow us to track and benchmark our progress over time. These objectives and performance indicators guide WorkSafeBC in all planning and decision making and, through the annual reporting process, enable us to remain open and accountable to British Columbians.

WorkSafeBC uses a number of objectives and performance indicators, 11 of which the Board of Directors and Senior Executive Committee have identified as key contributors to meeting WorkSafeBC's strategic goals (see page 22). In choosing which performance indicators to highlight, the Board of Directors and Senior Executive Committee considered factors including the following:

- Relevance of the indicators to WorkSafeBC's strategic goals
- Validity of the indicators (do they measure what they are intended to measure?)
- Availability and reliability of data
- Clarity, comprehensiveness, and transparency of the indicators
- Ability of the indicators to provide reliable comparisons over time

The 11 key objective/performance indicators (KPIs) reflect WorkSafeBC's commitment to reporting its performance in terms of a balanced scorecard — an analysis of the organization's ability to incorporate both financial and non-financial factors toward fulfilling our mandate, vision, and mission. By looking beyond financial indicators, we gain a comprehensive picture of our overall performance and use that information to enhance business operations.

Throughout the year we monitor and assess each performance indicator (along with additional indicators used at the corporate and divisional levels) to track our progress toward targeted goals. Most indicators are updated monthly or quarterly, allowing WorkSafeBC to adapt to changes and, when necessary, make corrective policy, program, or operational adjustments to revert to target.[6]

Changes from the previous year

Nine of the 11 key objective/performance indicators selected for this year's annual report and service plan have been used since 2003,[7] though some definitions and calculation methods have changed over time. Any substantive changes in calculating these KPIs are noted in the year they were made. WorkSafeBC's Board of Directors may change, discontinue, or introduce a new key objective/performance indicator at any time.

If an indicator changes after the annual report and service plan have been submitted to the Minister of Labour, the change is detailed in the following year's report. We also report the results of indicators discontinued from the previous year, and, whenever possible, historical results. This provides readers with context to interpret and compare target results from year to year.

Before 2010, several key objective/performance indicators were based (in whole or part) on data derived from legacy systems. Since 2010, annual report and service plan results and targets have been developed based on data available through Claims Management Solutions (CMS) systems implemented in May 2009. KPIs affected by this change include: the provincial injury rate, timeliness of payments, successful return-to-work by 26 weeks, and cases referred to Vocational Rehabilitation Services. However, every effort has been made to ensure comparability across all time periods shown.

Also, as noted on pages 36 and 41, beginning in 2011 WorkSafeBC adopted International Financial Reporting Standards (IFRS) reflecting the adoption of those standards as generally accepted accounting principles (GAAP) for publicly accountable enterprises in Canada. As such, results and targets from 2011[8] for KPIs #8 and #10 are in accordance with IFRS, while any consequences of this change are noted in the sections pertaining to the key objective/performance indicators affected.

Linking priorities and performance

This reporting year marked the first year of operation under our new five-year strategic plan. Approved by the WorkSafeBC Board of Directors in 2011, the strategic plan — known as *Safe Work & Outstanding Service* — is providing continuity with the past and a roadmap for the future. It defines the broad strategies and actions for achieving our goals to ensure we are directing and aligning our efforts and resources toward established goals, while confirming the values and commitments WorkSafeBC wants to be known for going forward.

Our KPIs help measure our success, and areas where improvement may be needed. They link directly to the strategic goals outlined in *Safe Work & Outstanding Service* which include:

- Fostering the improvement of occupational health and safety in workplaces and communities

- Improving service to stakeholders — improving return-to-work outcomes, disability prevention, overall customer service, accessibility, and public confidence
- Improving service to stakeholders — improving adjudicative decision making throughout the organization, ensuring stakeholders receive their full legal entitlements
- Maintaining the cost-effectiveness and accountability of the services we deliver
- Maintaining financial security, sustainability, and stability

Setting annual targets

In setting annual targets for each KPI, WorkSafeBC considers several factors, including historical performance, desired service levels, operational requirements, and resources available for achieving short- and long-term goals. We also consider environmental and external factors that may affect performance — and the potential to mitigate or control those factors through various programs and initiatives.

In setting our annual targets, WorkSafeBC strives to improve. In some cases, targets we set for future years may be the same or less favourable than levels achieved the previous year. This can occur when factors that contributed to past performance are no longer expected to continue. For example, we may have achieved favourable results because of a temporary improvement in economic conditions, a new short-term initiative, or a one-time allocation of resources. Targets may also be less favourable than previous targets when certain expenditures or activities are expected to affect outcomes. For example, an investment in new technology could increase WorkSafeBC's administrative costs for a period of time. Where appropriate, this type of temporary cost increase is factored into future targets.

The following section lists each key objective/performance indicator, factors contributing to performance outcome, and WorkSafeBC's annual targets through 2015. Our targets are consistent with the meaning and use described in the Performance Reporting Principles for the British Columbia Public Sector. In this context, a target is a forecast of a performance indicator's value in a given year of the service plan. However, targets are not intended to limit WorkSafeBC's potential to strive for service improvement or dictate how decision makers should adjudicate individual claims.

Ensuring data reliability

WorkSafeBC stands behind the integrity and reliability of all KPI results published in this annual report. In an ongoing effort to improve our performance reporting, for the past 10 years we have submitted our annual report to a voluntary annual audit by the Office of the Auditor General of British Columbia. This audit, beyond the normal auditing of financial statements, is intended, in part, to verify the accuracy of our results, and identify areas for improvement. For more information on the Office of the Auditor General's findings, refer to pages 18 and 19.

Through ongoing auditing and quality control initiatives, WorkSafeBC will continue expanding on the quality, consistency, comparability, and completeness of data included in our annual report. The Board of Directors and Senior Executive Committee will continue evaluating performance indicators, making refinements as necessary to ensure each indicator accurately reflects WorkSafeBC's progress in working toward our strategic goals.

Comparing results over time

Each KPI cited in this report includes a comparison to past results. While WorkSafeBC's criteria for measuring performance generally remain the same from year to year, the overall operating environment must be considered to properly interpret results over time. A change in the mix of economic activity[9] — an increase in construction activity, for example — can influence the outcome of several performance indicators based on overall system averages. Similarly, changes in the proportion of occupational disease claims could affect the indicator for the timeliness of payments, since claims for disease are complex and generally take more time to adjudicate. Changes in the economy can also influence some indicators more than others. For this report, results have been compared over the period from 2008 to 2012, with targets set for 2013 to 2015. The exception is KPI #2, a new measure, for which results are only available from 2011.

Comparing results with other jurisdictions

In Canada, all workers' compensation organizations collect data to measure their performance and administer their systems. However, each jurisdiction typically uses different means to collect and report data due to differing legal requirements, policies, goals, governing structures, and operating procedures. See Appendix B, page 117, for more information.

Linking Priorities and Performance

In December 2011, the WorkSafeBC Board of Directors approved our new strategic plan. It reflects refinements to our past strategic direction and provides updated priorities, goals, and objectives. Targets for the years 2013 to 2015 are in alignment with the strategic plan and may be reviewed in conjunction with the table on the following page.

2012–2017 Strategic Plan*

Board of Directors — Priorities

- Eliminate serious injury and death in the workplace
- Improve return-to-work outcomes and prevent avoidable disability
- Respond effectively to changing social and economic realities
- Maintain a system with long-term sustainability that contributes to the societal benefits in keeping with the historic compromise
- Maintain an effectively operating business

Goals

Goal 1: Foster the improvement of occupational health and safety in workplaces and communities	**Goal 2a**: Improve service to stakeholders — improve return-to-work outcomes, disability prevention, overall customer service, accessibility, and public confidence	**Goal 2b**: Improve service to stakeholders — improve adjudicative decision making throughout the organization, ensuring stakeholders receive their full legal entitlements	**Goal 3**: Maintain the cost-effectiveness and accountability of the services WorkSafeBC delivers	**Goal 4**: Maintain financial security, sustainability, and stability	

Operational objectives

• Preventing serious injury	• Championing return to work and preventing avoidable disability • Providing outstanding customer service to workers and employers	• Learning, leading, and sharing	• Ensuring the long-term financial stability of the system	• Engaging and supporting the WorkSafeBC team

Indicators

• Injury rate (number of claims first accepted per 100 person-years of employment) (performance indicator #1)	• Improve the timeliness of safe, durable return to work for workers on short-term disability benefits (performance indicator #2) • Improve return-to-work outcomes for workers in vocational rehabilitation (performance indicator #3) • The number of days required for WorkSafeBC to send first wage-loss payments to short-term disability claimants from the date of their disablement (performance indicator #4) • Survey results: injured workers' rating of overall experience (performance indicator #5) • Survey results: employers' rating of overall experience (performance indicator #6) • Survey results: public contribution index (performance indicator #7)	• Proportion of issues leading to decision changes as a result of legal and/or policy errors (Review Division and WCAT levels) (performance indicator #11)	• Annual administration costs per $100 of assessable payroll collected from employers (performance indicator #10)	• Percentage of the target asset level achieved (performance indicator #8) • Aggregate premium rate (performance indicator #9) • Greenhouse gas emissions (reported in the CSR section)	

* Safe Work and Outstanding Service — WorkSafeBC's Strategic Plan 2012–2017 *(WorkSafeBC, December 7, 2011) http://www.worksafebc.com/about_us/assets/PDF/StrategicPlan.pdf*

Performance targets and results at a glance

Key objective/performance indicator	2012 target	2012 result	2013 target	2014 target	2015 target
1. Provincial injury rate (number of claims first accepted per 100 person-years of employment)	2.6 or less	2.34	2.6 or less	2.6 or less	2.6 or less
2. Return to work (percentage of workers returning to work within 26 weeks)	82%	80%	80%	81%	82%
3. Return-to-work outcomes for workers in vocational rehabilitation (percentage of vocational rehabilitation clients who successfully return to work)	74%*	77.1%	74%	74%	74%
4. Timeliness of initial short-term disability payments (number of days from disablement date to first payment)	22 days	19.7	21 days	21 days	21 days
5. Injured workers' rating of overall experience (percentage who rate overall experience as good or very good)	75% good or very good	77% good or very good	77% good or very good	77% good or very good	78% good or very good
6. Employers' rating of overall experience (percentage who rate overall experience as good or very good)	83% good or very good	81% good or very good	81% good or very good	81% good or very good	81% good or very good
7. Public confidence (percentage who rate WorkSafeBC's public contribution as somewhat positive or very positive)	85% or more	89%	86% or more	86% or more	87% or more
8. 100 percent of the target asset level (actual asset value as a percentage of target asset level)	87%*	89%	84%	81%	81%
9. Aggregate premium rate between \$1.25 and \$2.25 (aggregate premium rate per \$100 of assessable employer payroll)	\$1.51	\$1.48	\$1.55	\$1.68	\$1.81
10. Administration costs (administration costs per \$100 of assessable employer payroll)	\$0.36	\$0.35	\$0.35	\$0.34	\$0.34
11. Decision making throughout WorkSafeBC, ensuring consistency with legislation and policy (proportion of claim issues leading to overturned decisions due to error in application of law and/or policy)					
Review Division	2.0% or less	0.9%	2.0% or less	2.0% or less	2.0% or less
WCAT	2.5% or less	0.9%	2.5% or less	2.5% or less	2.5% or less

* *Some 2012 targets have changed from the* 2011 Annual Report and 2012–2014 Service Plan. *See individual KPIs for more information.*

Performance Targets and Results

Key objective/performance indicator #1: Reduce the provincial injury rate[10]

B.C. injury rate

Importance

WorkSafeBC's top priority is preventing work-related injury, disease, and death. We gauge our progress by measuring the provincial injury rate — the number of claims first accepted by WorkSafeBC per 100 person-years of employment.[10] The lower the rate, the lower the human cost paid through work-related injuries and deaths.[12]

Setting targets

The provincial injury rate is a composite figure based on injuries in all sectors. Various factors, including changes in economic activity, industry practices, industry mix, and injury risk in each sector create upward pressure on the rate. To set targets, WorkSafeBC examines the current injury rate and estimates the impact that programs, initiatives, and changes will have on the injury rate in the coming year. The weighted average of these sectoral injury rates is the provincial injury rate target. Since the historic low of 2.27 in 2010, the injury rate has exhibited a slight upward trend. Based on this analysis, the targets for 2013–2015 have been set at 2.6. Though higher than the 2012 result, the targets are still ambitious. It will take significant effort on the part of all workplace participants and WorkSafeBC to temper the upward movement of the injury rate at this level.

While we have used the same criteria to measure the injury rate target from year to year, changes in economic activity can influence results over time.[13] The table above shows the estimated change in the 2012 injury rate for each sector, compared with the final injury rate for 2011.

Injury rate by sector

Sector[11]	Injury rate for 2011	Estimated change in 2012[14]
Primary resources	2.6	Lower
Manufacturing	3.4	No change
Construction	4.5	No change
Transportation and warehousing	4.9	Lower
Trade	2.1	No change
Public sector	3.9	Higher
Service sector	1.7	Higher

Though a small component of the provincial injury rate, the serious injury rate (see page 27) is of particular concern given the often life-changing consequences to workers and their families when serious injuries and fatalities do occur. For this reason, we track the serious injury rate and, as part of our initiatives, work specifically to address prevention of these injuries.

Performance highlights

Over the past several years, the provincial injury rate has been increasing slightly — from the historical low of 2.27 in 2010 to 2.34 in 2012. Any increase is of concern, leading WorkSafeBC to enhance scrutiny in this area so we can identify the causes and address them quickly.

Unfortunately, the number of fatalities related to occupational disease remains high. Primarily driven by asbestos-related disease resulting from workers' exposure 20 to 50 years earlier, occupational disease is the single highest cause of work-related death in British Columbia. Of the 149 fatalities in 2012 (142 in 2011), 58 percent were related to occupational disease. In 2012, WorkSafeBC continued supporting research, outreach, and enforcement activities to prevent occupational diseases. This included creating an Asbestos Team and introducing a new online Exposure Registry to capture information regarding

occupational disease exposure to hazardous substances and to help identify issues and emerging trends for early intervention. In addition, WorkSafeBC's website, HiddenKiller.ca, is part of a broader campaign to raise awareness and educate people about the dangers of asbestos exposure. The website provides information on what asbestos is, where it is found, and how it should be handled.

Major programs and strategies

To achieve our objective of preventing work-related injury, disease, and death, WorkSafeBC takes the following three-pronged approach:

- **Enforcement** — We are mandated to ensure employers comply with the *Workers Compensation Act*, the Occupational Health and Safety Regulation, and related policy. We ensure compliance by conducting workplace inspections and issuing written orders, warning letters, and penalties.
- **Consultation and education** — We work with employers, workers, labour unions, and other stakeholders to improve workplace health and safety in B.C.
- **Incentives** — We provide financial incentives for workplace health and safety management systems, return-to-work programs, and demonstrated improvements to safety performance.

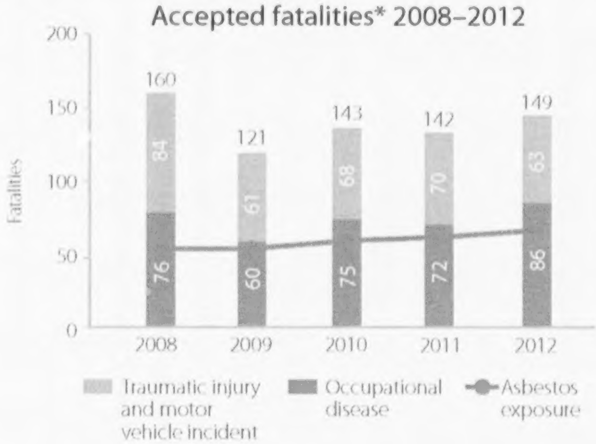
High-risk strategy

In addition to responding to calls requiring enforcement action, in 2012 we continued conducting targeted inspections in designated high-risk sectors, focusing on the prevention of serious injury and death from traumatic incidents and occupational diseases. Under the high-risk umbrella, we identified areas with a high risk of injury,[15] and applied resources where they would be the most effective.

Given the complex and diverse range of activities across industry sectors, our teams take a multi-disciplinary and holistic approach to addressing poor safety performance, while making effective use of WorkSafeBC resources including enforcement, information tools, education, industry outreach, and claim management. In 2012, we focused our efforts on four primary high-risk industries (construction, health care, forestry, and manufacturing). And four secondary high-risk industries (agriculture, fishing, oil and gas, and transportation).[11]

Asbestos

Asbestos exposure is a significant contributor to workplace fatalities. In 2012, officers from our Asbestos Team implemented a consistent, coordinated, and focused effort with stakeholders to prevent asbestos exposure in the residential demolition industry. Eight officers completed residential demolition inspections, assessed penalties, and initiated court injunctions to ensure compliance with asbestos abatement requirements. Through education and consultation with homeowners and municipal building departments, WorkSafeBC officers also contributed to improving industry best practices.



* The number of claims accepted for survivor or fatal benefits. Claims are counted based on the date of a first fatal benefit (reserve set or cash award), regardless of the year of injury.

Partnerships for safety and outreach

In 2012, WorkSafeBC continued funding and supporting 12 health and safety associations and eight other ongoing health and safety initiatives across all major industries in B.C. We fund nine certifying partners (eight are health and safety associations) to administer our Certificate of Recognition (COR) program for their industries. In 2012, there were more than 3,400 COR-certified employers. Through these safety partners, our industry teams continue outreach through programs and initiatives to increase occupational health and safety awareness particularly around the issue of combustible dust, confined spaces, working at elevations, and workplace violence.

Stay on top program

Between 2008 and 2010, almost 2,000 workers were injured by falls from heights. In 2012, WorkSafeBC implemented the Stay on Top program focusing on ensuring compliance with the Fall Protection Requirement of the Occupational Health and Safety

Regulation. Of the total firms inspected during the program, 860 workers were observed working at heights. Of the 860 workers, 703 (or 82 percent) were working at heights of 10 feet or more above grade, and were found to be unprotected (no fall protection system), and exposed to a fall hazard. Through targeted inspections, corrective orders, and education we worked to reduce injuries caused by fall from heights.

Mushroom farm recommendations

Conducted by the BC Coroners Service, the inquest into the 2008 incident at a Langley mushroom farm that killed three workers and left two with severe injuries concluded on May 16, 2012. The coroner's jury made several recommendations directed to WorkSafeBC. Accordingly, for 2013 we are developing a revised agriculture strategy founded on compliance activities. This revised strategy will focus on high-risk work activities, supporting and utilizing the resources of the Farm and Ranch Safety and Health Association (FARSHA), and leveraging partnership opportunities with stakeholders.

Combustible dust

Following the two explosions at B.C. sawmills early in 2012, WorkSafeBC conducted a significant industry intervention relating to combustible dusts. The industry intervention involved ordering all sawmill employers to conduct a risk assessment and implement controls to manage combustible wood dusts, and included follow-up from our prevention officers within weeks to ensure compliance. This strategy was then further expanded to include firms manufacturing other wood products. Additional enforcement targeting will occur in 2013.

Late-night retail

Implementation of amended Late-Night Retail and Working Alone requirements began in April 2012, involving inspections during late-night retail hours to ensure employer compliance with newly amended safety options that protect late-night retail workers.

Small business

In 2012, the Canadian Federation of Independent Business (CFIB) and WorkSafeBC launched the Employers' Fairness and Service Code — the culmination of an ongoing partnership between the CFIB and WorkSafeBC. The code was created to increase understanding and improve how small businesses interact with us.

At the same time the Fairness and Service Code was launched we also created a Small Business Liaison Office. It's helping small business owners and operators by answering questions and addressing issues that may arise as they work with us. A dedicated telephone number and email address puts small business owners or operators in direct contact with WorkSafeBC managers who can answer questions and provide timely assistance.

Looking ahead

Since the injury rate is a composite measure based on injuries occurring in all sectors, achieving reductions is an ongoing challenge for WorkSafeBC. We expect short-term economic conditions, changes in the industry mix, and other factors to place upward pressure on this rate. Though the 2012 result was lower than target, the target will remain at 2.6 or less over the long term, as these targets may be challenging to achieve and will require significant effort to sustain.

This reporting year saw a number of events that significantly changed the demands on WorkSafeBC's prevention resources, redirecting prevention officers to activities that, while critically important and necessary, may not equate to reducing the injury rate over the short term. This includes the areas of combustible dust issue and late-night retail.

In 2013, addressing the injury rate will also involve focusing on identifying emerging issues, proactive enforcement initiatives, and partnerships with targeted employers and sectors. We also expect prevention activities to be focused on a new bullying and harassment in the workplace policy, to be implemented in 2013.

To reduce workplace injury, disease, and death WorkSafeBC will continue working with our business and labour partners to support new, young, and other vulnerable workers; address occupational disease risks; and increase ownership and accountability for health and safety across all sectors. To ensure our safety message is reaching the province's diverse workforce, safety information will be provided to workers in their first language whenever possible. We will also continue supporting injury prevention education and awareness initiatives through a targeted, multi-year communications strategy.

Serious injury rate*

In 2008, WorkSafeBC developed a measure to track the most serious injuries so we could monitor the success of our prevention strategies in this area. The serious injury rate[16] is a subset of the provincial injury rate. The serious injury rate for 2012 is 0.85 per 100 person years of employment; in other words, about one-third of claims[15] met the criteria for a serious injury.

The serious injury rate is calculated as follows:

The denominator is the number of person-years of WorkSafeBC-covered employment.

The numerator[17] includes claims with at least one of the following criteria:

- The claimant received at least 28 days of wage-loss benefits during the period
- The claimant required extensive hospitalization or medical services[18]
- The claim is a fatality
- The claim met one of 275 specific diagnostic codes identified by WorkSafeBC's medical and occupational safety professionals as being the most life-threatening or life-altering conditions of those listed in the ninth revision of the International Classification of Diseases. Developed by the World Health Organization, these codes are commonly referred to as ICD-9s.

For more information about the serious injury rate, see *WorkSafeBC Statistics 2012* at WorkSafeBC.com.

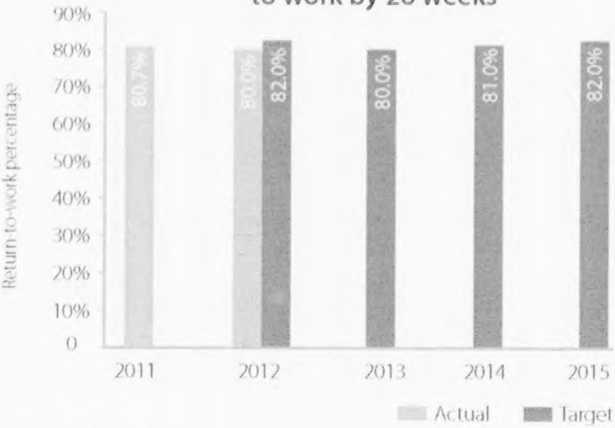
* In 2013, a new definition of serious injury will increase reliance on an expanded list of ICD-9 injury codes to define seriousness. This list will eliminate or significantly reduce the inclusion of length of wage-loss benefits which has, to date, acted as a proxy for serious injuries not fully captured by the current list of included ICD-9 codes.

Key objective/performance indicator #2: Improve return-to-work outcomes

In 2011, the Board of Directors approved a new strategic plan that included a change in the focus of key objective/performance indicator #2. Starting in 2012, the new KPI #2 measures the percentage of workers on short-term disability (STD) returning to work by 26 weeks. Prior to 2012, the previous KPI #2 (duration) measured the average duration of STD claims represented by the number of days with paid benefits.

With a renewed focus on early, safe, and durable return to work, the new KPI is more relevant, easier to understand, and allows for direct and timely monitoring of our success. This measurement also better reflects the goal of claim operations in assisting injured workers with return to work.

Percentage of workers returning to work by 26 weeks



Importance

The percentage of workers returning to work by 26 weeks measures the success of early intervention initiatives designed to assist workers in returning to work after a workplace incident or injury. This measure is for short-term disability claims and usually reflects a return-to-work outcome to the pre-incident occupation.

WorkSafeBC tracks the number of workers successfully returned to work within 26 weeks from the date the employee stopped working due to injury. This is tracked as a percentage of the number of wage-loss claims concluded within the calendar year.

A return-to-work outcome is considered successful if return to work is within 26 weeks, voluntary (not under objection), and durable (no subsequent claim activity for 30 days).

The 26-week milestone was chosen for a number of reasons: it is conventional wisdom among Workers' Compensation Boards across Canada as a key marker; the Association of Workers' Compensation Boards of Canada uses 180 days (26 weeks) return to work as a key statistical measure (KSM),[11] and in Medical Recovery Guidelines (such as MDGuidelines), the vast majority of injuries show recovery before six months. In addition, this milestone enables us to monitor the outcomes of early intervention initiatives primarily designed to assist workers in returning to work at the same workplace and with the same employer prior to the incident. The 26-week window offers the greatest potential for claim management teams to ensure durable return to work.

Setting targets

To set our targets for this KPI we consider the overall economic climate, the ability of employers and workers to engage in return-to-work initiatives, workplace modification, and job accommodation programs.

The 2012 reporting year was a benchmark year for this new KPI and results were difficult to predict. Therefore, the 2013 target for the percentage of workers returning to work by 26 weeks has been revised to 80 percent — to reflect actual results. While targets for 2014 and 2015 have been set based on slow to moderate economic growth, this target will be adjusted annually for changes in economic indicators.

Performance highlights

In 2012, average return to work by 26 weeks was 80 percent, a decrease from 2011. The 2012 result was lower than the 2011 baseline as significant resources were diverted to address the number of claims at more than 240 days.

In addition, our new Return-To-Work Services unit, created to address early and durable return to work, was still in transition. The impact of this new unit is not expected to be realized until the latter part of 2013.

Major programs and strategies

In 2012, WorkSafeBC continued using the following strategies to assist and support injured workers in returning to work, including:

- **Offering a nurses' phone line specifically dedicated to the construction industry** — A dedicated nurses' line for the construction industry is providing employers with direct phone access to nurse advisors with construction expertise who can better facilitate return-to-work planning for injured workers.
- **Facilitating return to work through dedicated teams within the health care sector** — These teams work with health authorities throughout the province to improve the service within health care sectors, and facilitate earlier return to work for workers.
- **Expanding WorkSafeBC's health care portal** — The health care portal we introduced in 2011 was expanded in 2012. It delivers online referrals, invoicing, and reporting functionalities. It also aims to reduce the time between entitlement and a health care provider's receipt of referral from an average of one or two days to mere hours. This means injured workers requiring treatment quickly receive the services they need.
- **Delivering clinical programs** — A series of programs, customized to more quickly meet the individual needs of workers, continued helping reduce wait times for claim processing.

WorkSafeBC also established the following program to support return to work:

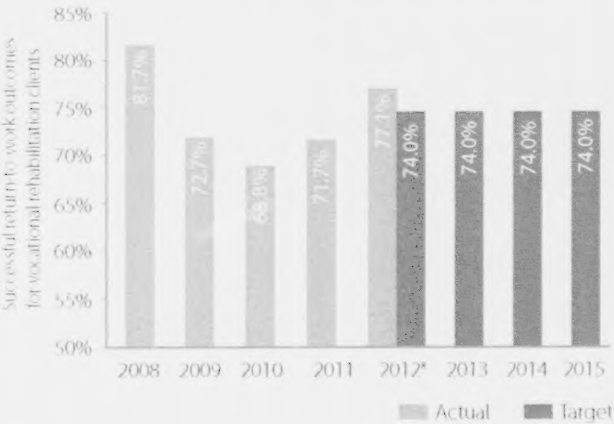
- **Expanding return-to-work services** — The role of WorkSafeBC nurses was expanded to enable them to more effectively facilitate return to work for injured workers. WorkSafeBC nurses (now return-to-work specialists) became claim owners, and decision makers for select claims, applying early-intervention methodology. Early results have yielded positive program outcomes.

Looking ahead

WorkSafeBC will continue employing an intervention model that supports injured workers earlier in the claim process. The hands-on implementation of return-to-work programs and disability management systems through existing and new programs and services is expected to facilitate early return to work and demonstrable outcomes for 2013 and beyond.

Key objective/performance indicator #3: Improve return-to-work outcomes for workers in vocational rehabilitation

Successful return-to-work outcomes



* Based on the inverse relationship between the return-to-work outcome and the B.C. unemployment rate, the 2012 target was set at 71 percent (based on a 2011 forecast of a 7.5 percent unemployment rate). Since the actual unemployment rate in 2012 was 6.7 percent, the target for 2012 was reset to 74 percent.

Importance

The main goal of vocational rehabilitation is to ensure injured workers return to work as quickly, safely, and successfully as possible — particularly those with catastrophic, severe, and complex injuries.

Historically, about 5 percent of all injured workers with wage loss claims — approximately 3,000 workers a year — are referred to WorkSafeBC's Vocational Rehabilitation Program. It eases the transition back to work for those who, following injury, are unable to return to their previous occupation and the work they were doing before getting injured. To measure the effectiveness of our efforts, WorkSafeBC tracks and records the number of successful outcomes for returning workers as a percentage of all return-to-work referrals completed annually by our Vocational Rehabilitation Services department.

Setting targets

As previously published, our 2013 target for return-to-work outcomes for workers in vocational rehabilitation has been increased to 74 percent. This revised target is based on an unemployment rate of 6.7 percent and will increase to 77 percent should the unemployment rate improve to 6.0 percent. Alternately, should the unemployment rate worsen to 7.0 percent, this target will decrease to 72 percent for 2013. This revised target reflects both the success of our initiatives in recent years in returning workers to suitable employment and the province's declining unemployment rate.

Workers referred to our Vocational Rehabilitation Services Program have often suffered complex injuries that may preclude them in successful return to work. In addition some workers within the program may choose to retire, therefore the program is unlikely to achieve a target of 100 percent. As a result, our return-to-work targets reflect our best expected outcomes based on an assessment of WorkSafeBC's current initiatives, strategies, and projected employment opportunities (assuming a relatively similar mix of claim referrals from year to year).

Performance highlights

In 2012, WorkSafeBC achieved a return-to-work success rate of 77.1 percent. Against the backdrop of a gradually recovering B.C. economy and modest growth in employment, this 2012 result has shown an improvement of 5.4 percentage points over the previous year. Vocational rehabilitation consultants (VRCs) helped 2,338 workers return to suitable employment (up from 1,983 in 2011). Approximately 47 percent of these workers returned to work with new employers or became self-employed.

Successful return-to-work results depend on the availability of meaningful work. For 2012, WorkSafeBC set the return-to-work target at 74 percent or more, reflecting reasonable expectations of a good result in an average-growth economy.

Major programs and strategies

WorkSafeBC works closely with injured workers, physicians, employers, unions, and others to create return-to-work programs customized to meet the unique needs of workers. Programs and services may include vocational counselling, return-to-work planning, worker-employer mediation, work assessment, worksite/job modification, job search and placement assistance, and help with training and education.

Whenever possible, WorkSafeBC strives to help injured workers in returning to work with their original employer — either in a modified version of the same job or a similar role. If this is not possible, our Employment Development and Placement tool suggests other employment options and helps our VRCs and their clients identify new job opportunities while offering employers incentives to offset the costs of hiring and training employees involved in return-to-work programs. These incentives

can include a brief and completely funded work assessment; a cost-shared, on-the-job training program; worksite modifications; or tuition costs for job-related courses.

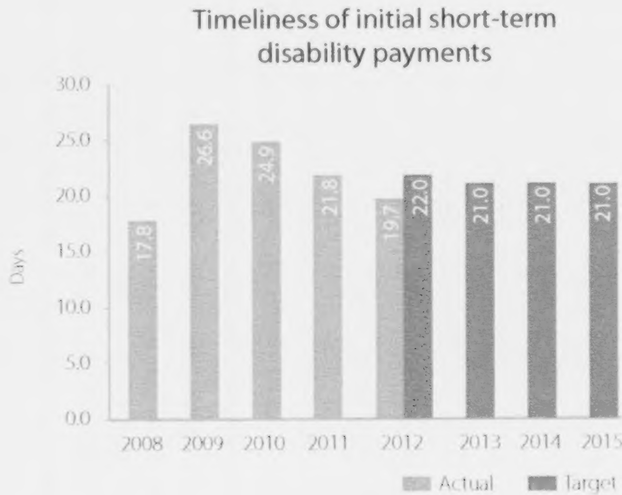
Looking ahead

As early intervention has been shown to improve return-to-work outcomes, earlier vocational rehabilitation involvement with workers continues to be a priority. Several new initiatives will support this goal in 2013. In particular, a streamlined Disability Awards Services model will allow vocational rehabilitation consultants to assist injured workers with vocational planning much earlier in the process.

In the first quarter of 2013, a new pilot will see new reporting and job needs forecasting implemented for vocational rehabilitation clients before the job search begins. Also, a labour market/job development specialist will compile labour market information beginning with occupations most commonly accessed by our clients, in addition to actively identifying job opportunities in those same sectors. We anticipate this combination of forecasting and consistent labour market information will help return workers to employment more quickly and effectively than in previous years.

While the unemployment rate improved in 2012, WorkSafeBC continues to adopt conservative return-to-work targets given the outlook for soft economic growth in 2013. As a result, in 2013 and beyond we have increased our target for a return-to-work rate of 74 percent or more — an improvement over targets published in the 2011 annual report. Accordingly, targets for the 2013–2015 period are set at 74 percent.

Key objective/performance indicator #4: Improve timeliness of initial short-term disability payments



Importance

Many of B.C.'s injured workers rely on benefits from WorkSafeBC to sustain themselves and their families until they are able to return to work. To measure whether injured workers receive their first short-term disability payments on time, WorkSafeBC calculates the average interval between the disablement date (the first day an injured worker is entitled to wage-loss benefits) and the date of first payment. We aim to provide disability payments to injured workers as quickly as possible, without compromising the adjudication process. However, a number of external factors can affect the timeliness of compensation payments, such as the time that workers, employers, and health care providers take to register their claim information with us.

Setting targets

In 2009, WorkSafeBC's timeliness was 26.6 days, largely due to the implementation of a new claims management system and business processes, which created a backlog as claims were converted to the new system. Despite a decision to delay adjudicating claims until all critical information had been filed, which naturally increased the average lapsed time of the first payment, timeliness continued to improve due to the success of timeliness initiatives. Based on current results, the target for payment timeliness for the 2013–2015 period has been reduced to 21 days.

WorkSafeBC has validated with our customers that timeliness of three to four weeks is appropriate. Surveys indicate more than 80 percent of our clients are satisfied — with ratings of average, good, or very good — if average timeliness is in the 24- to 25-day range.

Performance highlights[20]

In 2012, timeliness improved to 19.7 days — a reduction of just over two days from the previous year. The 2012 result is a marked improvement, and well under the target of 22 days. This change in timeliness is due to various business process improvements that resulted in more timely adjudication decisions.

Major programs and strategies

To improve initial adjudication timeliness, WorkSafeBC has continued promoting increased use of Teleclaim (by workers) and the online portal (by employers). Teleclaim is helping workers submit their claim information, while increased use of the online portal by employers to report injuries is streamlining overall claim-related information-gathering.

Use of a real-time interpretation service, enabling clients to communicate with WorkSafeBC in their preferred language over the phone, continues to increase. In 2012, the service received requests in 69 different languages, and answered 11,734 calls.

Looking ahead

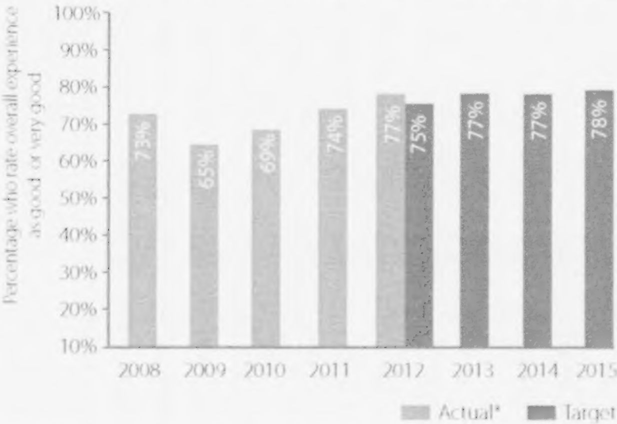
WorkSafeBC will continue striving for service and quality improvements in the adjudication process through new initiatives and programs.

In October 2012, a new Medical Advisor Support model was implemented. It assigns medical advisors (doctors) with expertise in causation issues directly to the entitlement unit. In 2013 and beyond, this direction of specialized expertise is expected to improve both the timeliness and quality of claims decisions at the entitlement level.

WorkSafeBC has also implemented a new claims distribution model to ensure equitable claims distribution. This new model serves as a single point of contact for major employers, which we expect will result in an improved customer experience for both workers and employers. It also provides greater accountability and is anticipated to improve the quality and timeliness of service going forward.

Key objective/performance indicator #5: Improve injured workers' rating of overall experience

Injured workers' rating of overall experience



* The margin of error is +/- 4 percent, 95 times out of 100.

Importance

WorkSafeBC strives to deliver timely, caring, personalized service that meets or exceeds the expectations of injured workers. To measure our performance, eight times a year we contract Ipsos to conduct random surveys of 100 injured workers. These surveys gauge injured workers' impressions of the organization and level of service provided by WorkSafeBC staff.

The main indicator of success is how injured workers rate their overall experience with WorkSafeBC, a measurement based on a five-point scale that covers the following range: very poor, poor, average, good, and very good. The key performance indicator is expressed as the percentage of injured workers who rate their experience as good or very good.

Setting targets

WorkSafeBC is mandated to provide fair compensation for workplace injury, disease, and death within boundaries set by law and policy. Given the adjudicative nature of this mandate, it is unlikely all injured workers will agree with every decision made about their claims. Also, the effort to return injured workers to employment can become more challenging for complex claims involving many functions and levels of expertise. As such, it is unrealistic to expect all injured workers will rate their overall WorkSafeBC experience as good or very good. We are committed to delivering excellent service, but based on recent and past results we estimate peak performance

to be about 78 percent of injured workers rating their overall WorkSafeBC experience as good or very good.

Performance highlights

In 2012, a record-high 77 percent of injured workers rated their overall experience with WorkSafeBC as good or very good, two points above our target of 75 percent, and three points above our 74 percent rating in 2011.

Injured workers in the initial adjudication stage of the claim process gave WorkSafeBC the highest overall experience rating of 87 percent, compared with 91 percent the year before. In entitlement, a later stage in the claim process, 79 percent of injured workers with allowed claims rated their experience with us as good or very good, up from 74 percent the year before. Seventy-seven percent of injured workers in case management stage rated their WorkSafeBC experience as good or very good, up from 73 per cent the year before. And 33 percent of injured workers whose claims were disallowed rated their overall experience as good or very good, compared with 30 percent in 2011.

The majority of injured workers rating their WorkSafeBC experience as good or very good said it was because WorkSafeBC was easy to work with, service was fast, the process smooth, and the explanations provided were clear. Injured workers, who rated their overall experience as average, poor, or very poor, cited lack of communication as the top reason.

Major programs and strategies

In 2012, WorkSafeBC established three new business processes that we believe have better aligned our service to the emerging needs of injured workers:

- Introduction of a new claim officer position, Return-to-Work Specialist — Nurse. The role was created to lessen the number of handoffs between claim officers and assist injured workers in accessing services more quickly, such as those involving referrals to medical care and occupational rehabilitation. In this new position we are able to provide service to injured workers with relatively short-term trauma claims, which is providing case managers with additional capacity in dealing with seriously injured workers.
- We rolled out a new Disability Award Service Model province-wide, streamlining disbursement of Disability Award compensation to injured workers, and providing injured workers with enhanced communication about the award process and amount. The new model has reduced the length of time injured workers wait to receive a permanent functional impairment or loss of earnings award. This enables us to provide injured workers with information about their award much earlier in the process so they are empowered to make decisions on how to move forward.
- We trained and centralized Bill 14 claim officers. Effective July 1, 2012, the provincial government enacted Bill 14 for claims dealing with mental disorders arising from workplace stress, bullying, and harassment. In addition to increasing our capacity to process and manage these claims, we trained some of our investigative staff to deal with the prevention component of Bill 14. Working in partnership on issues such as bullying and harassment is another avenue where we can further contribute to the overall health, safety, and well-being of B.C.'s workers.

In addition to these new business processes, WorkSafeBC also introduced three new initiatives to enhance service quality, including:

- A training initiative dedicated to case managers — the staff dealing with workers whose injuries are the most serious and longest in duration. Focus on the key elements underlying all case management claims, relationship-building, planning, and adjudication, the Three Pillars of Case Management initiative is based on existing best practices.
- Decentralizing resources from Compensation Practices and Quality. In late 2012, staff from this department participated in team meetings at all area offices to explain practice directives, thereby helping resolve complex claims.
- Making ongoing enhancements to our Claims Management System (CMS) and laying the groundwork for a major upgrade to CMS 2.0. Launched in spring 2013, CMS 2.0 includes several enhancements to improve the quality, efficiency, and overall functionality of claim processing.

Throughout 2012, WorkSafeBC continued to match injured workers with specialized, industry-aligned teams. We also made more timely adjudication decisions, getting first payments to injured workers in an average of 19.7 days — more than two days faster than the previous year (see page 30).

We continued rolling out the Service Promises initiative based on a pilot project developed in two WorkSafeBC offices in 2011. As part of this project case managers observed a focus group of injured workers, hearing first-hand accounts and perspective on those service areas that mattered most to the workers. The aim of the initiative is to engage case managers in developing

a set of customized service promises for injured workers — measureable commitments case managers agree to undertake, as a group, to address their clients' top needs.

In 2012, the Service Promises initiative was conducted with case managers in eight offices. Some entitlement officers also participated in a similar process. By mid-2013, case managers in all area offices will have completed the Service Promises initiative.

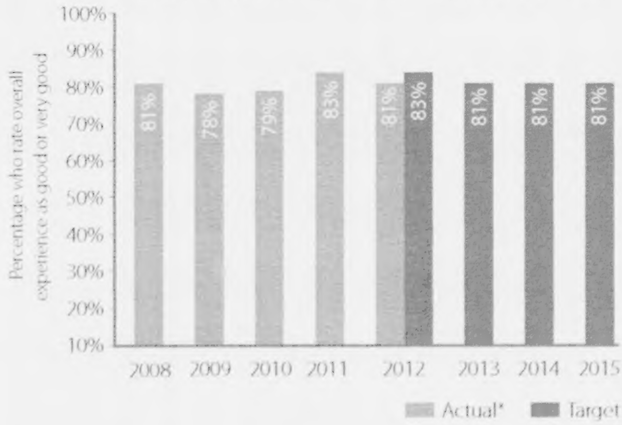
Looking ahead

The two factors posing the greatest challenge to maintaining or improving the record-high overall experience rating from injured workers are claim volume and return-to-work challenges. Over the next year, WorkSafeBC anticipates a modest increase in claim volume, but if the number of incoming claims rises faster than expected, then service to injured workers could suffer. Similarly, if average return-to-work barriers increase, such as relatively high unemployment rates, there will be greater demands on our return-to-work staff and consequently less time to respond to the needs of individual workers. We will continue mitigating these risks through targeted prevention initiatives (see pages 25–26) and return-to-work strategies (see pages 28–29).

Taking these and other factors into account, WorkSafeBC will aim maintain our service score of 77 percent of injured workers rating their service good or very good in 2013 and 2014, and improve that score by one point to 78 percent in 2015.

Key objective/performance indicator #6: Improve employers' rating of overall experience

Employers' rating of overall experience



* The margin of error is +/-5 percent, 95 times out of 100

Importance

WorkSafeBC is committed to providing excellent customer service to employers through its core functions of prevention, assessment, and compensation. To measure performance in these areas, we contract market researcher, Ipsos to survey 500 employers per year.[21] The sample is drawn from employers with two or more claims in the previous 12 months.

For WorkSafeBC, the key indicator of success is employers' ratings of their overall experience with our organization, including the claim process, inspections, and premiums. Employers are asked to rate their overall experience as very good, good, average, poor, or very poor. Success is determined by the percentage of respondents rating their overall experience as good or very good.

Setting targets

In setting targets for improving employers' overall experience, we consider our prior performance as well as any anticipated operational challenges (such as changes in business processes, rates, claim volume, and staff availability) resulting from the current and future economic environment. Taking these factors into account, and considering WorkSafeBC's mandate as a regulatory and adjudicative body, we estimate our aggregate peak performance to be about 83 percent of employers rating their overall experience as good or very good. Prior targets had been as high as 85 percent. In the long term, this may still be

possible, but Ipsos, confirms the primary driver of engagement for employers is premiums. Once the premium rate increases in 2013, with a further increase predicted for 2014–2015, service scores are likely to be negatively affected.

Performance highlights

In 2012, 81 percent of employers rated their overall experience with WorkSafeBC as good or very good, the second-highest overall performance since 2005. During the research process, employers are grouped and analyzed by size so we may further understand their experience. Ratings from small employers remained flat in 2012, at 81 percent as good or very good. The score from medium-sized employers declined three points in 2012, down to 81 percent (compared with 84 percent in 2011). Ratings from large employers were also lower, at 80 percent, and down five points, from 85 percent the previous year.

Through the survey process WorkSafeBC also measures different touch points with employers, which includes core areas of our business: premium costs, workplace inspections, and the claim process — as well as support functions like communication, payroll and reporting, and service from our call centre. The survey questions relating to various functions within our business are specific, whereas the question for employers' overall experience reads: *Taking everything into account how would you rate your overall experience.* Thus, results for different touch points may be higher or lower than the overall experience score.

When surveyed, 85 percent of employers said they received average, good, or very good value for their premium payments in 2012, down one point from 2011. Market research provider, Ipsos notes price is measured on the basis of the top three categories (very good, good, and average). In other words, employers either are satisfied with the price they pay, or not. Employers' overall experience rating is also strongly influenced by premium costs. While the base premium rate remained at an historically low level in 2012, we announced mid-year that the rates would rise for 2013. This likely influenced employer satisfaction in 2012, as it will in 2013.

The majority of employers who responded (78 percent) felt WorkSafeBC inspections helped them establish safer work practices. When surveyed specifically about the inspection process, employer ratings in 2012 declined — down four points from 2011 — to 71 percent good or very good. In the area of claims, 72 percent of employers rated WorkSafeBC's claim process as good or very good, a one-point decrease from the previous year.

While employers were slightly less satisfied with the claim process overall, more employers felt WorkSafeBC made a good or very good effort to help injured workers return to work — up four points from 2011 (64 percent) to 68 percent in 2012.

In addition to surveying the three core areas of our business, we also asked employers about their experience in the important area of communication with WorkSafeBC. Eighty-one percent of employers surveyed rated our website as good or very good, up from 78 percent in 2011. When asked about the payroll and reporting process, we saw the largest jump in results over 2011, with employers rating the process at 81 percent as good or very good — a six-point improvement over 2011. And 83 percent of employers rated the service they received from our Employer Service Call Centre as good or very good, up five points in 2012.

Major programs and strategies

In 2012, WorkSafeBC maintained a relatively high overall experience rating from employers due in part to the collective efforts of our staff, relatively low premium rates, and key ongoing initiatives either directly or indirectly aimed at improving service for employers. Throughout the year, WorkSafeBC continued consulting with employers, providing education and support, and maintaining partnerships aimed at improving safety, lowering claim duration, and reducing claim costs.

Through our segmentation initiative, employers continue to be aligned with teams of WorkSafeBC employees. These teams have industry-specific expertise enabling them to better understand the unique job and worksite requirements associated with employers. In the past few years, WorkSafeBC has made a concerted effort to improve the workplace inspection experience for workers and employers. Through research, we measure and analyze how to best deliver service during the inspection process — without subjugating our enforcement mandate. The research conducted is not reflective of a typical customer satisfaction survey. The questions asked during the survey phase seek feedback regarding communicating safety best practices to both the worker and the employer representatives including the following: professionalism of our officers, officer knowledge and expertise to the related industry, clarity of the direction provided and orders written, and fair assessment of the employer's compliance with applicable Regulations.

Our research has provided valuable insights into how to improve the inspection experience for employers while engaging them as partners in the safety process. This perspective has been shared with prevention officers, who are taking the concepts into the field as they work with employers on inspections.

Looking ahead

In 2012, WorkSafeBC matched its second-highest overall experience rating from employers. However, one factor that could potentially diminish the experience rating of employers in the coming years is the cost of employer premiums.

In recent years, the published base premium rate has seen its lowest level in decades, a trend that has been reversed in 2013 with a base premium rate increase. If claims costs and economic uncertainty continue exerting upward pressure on premiums, we anticipate further increases in the years ahead (see page 40).

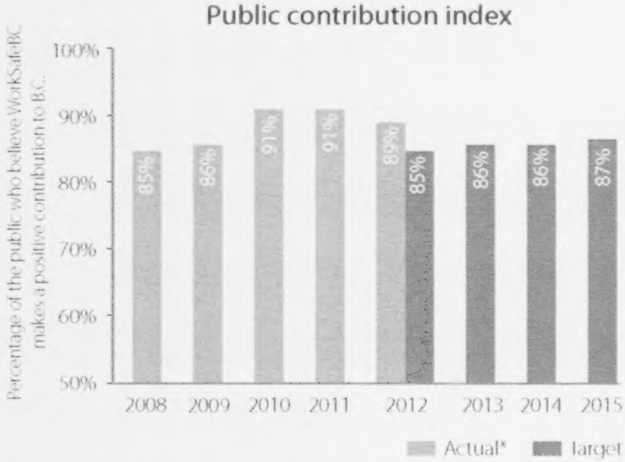
To help mitigate upward pressure on premium increases, in 2013 we will hire additional prevention officers to work with employers to support improved health and safety. We will also continue to ensure our inspectors focus on those worksites in greatest need of enforcement and safety support (see page 25).

In 2013, WorkSafeBC will roll out an enhanced Account Management program for medium- and large-sized employers. This program will support improved health and safety performance, disability management, and return to work, helping control claim costs. For employers in the small business sector, we will introduce a Small Business Liaison office, modelled after a similar unit that has demonstrated success in Washington State.

As we continue refining our claim management system, employers should benefit from faster decisions, additional communication, and new online tools for managing claims. We will also continue building on our Voice of the Customer research, exploring how to best engage employers while building partnerships in support of improved health, safety, and return to work.

By implementing these measures, WorkSafeBC believes we will mitigate upward pressure on premium increases — including increases to the base premium rate in 2013 and beyond — with the goal of maintaining an overall employer experience score target of 81 percent over the next three years.

Key objective/performance indicator #7: Raise public confidence



* The margin of error is +/- 3.5 percent, 19 times out of 20.

Importance

Across the province, WorkSafeBC strives to be recognized by stakeholders and the public as a valued asset. As such, we rely on the trust and support of the larger community to improve workplace health and safety and return-to-work outcomes for injured workers. Increased public confidence in our organization enables WorkSafeBC to deliver its health and safety message more effectively and build durable partnerships with workers, employers, unions, safety associations, and other workplace participants.

To measure public confidence, we contract Ipsos to query approximately 800 British Columbians randomly at least four times a year using a survey called the Public Contribution Index. It communicates how respondents view WorkSafeBC and its overall contribution to the province. (For this reporting year, residents were surveyed in March, June, July, September, and November.) This key objective/performance indicator calculates the percentage of those who rate WorkSafeBC's contribution as very positive or somewhat positive.

Setting targets

Each incremental increase in the index suggests greater public confidence and trust in our organization. We believe acting as a leader of prevention, rehabilitation, and return-to-work initiatives requires a high level of credibility.

Targets are set by considering WorkSafeBC's most recent results and the effect of external factors, with an overall focus on long-term improvement. This measure is particularly sensitive to high-profile negative media coverage that may arise at any time. As a regulatory and enforcement agency, it is inevitable that actions or decisions will occasionally be perceived negatively, potentially driving down results for this measure. Past experience and advice from the survey firm suggest that scores of 85 percent positive and above are rare among public regulatory organizations. WorkSafeBC has set 85 percent as its threshold target, increasing to 86 percent for 2013 and 2014, with a further increase to 87 percent 2015. We are committed to maintaining this threshold while looking at new measures to provide a more robust understanding of public perception. We will evaluate adjusting this key performance indicator accordingly.

Performance highlights

In 2012, WorkSafeBC's average public contribution rating remained high at 89 percent positive, exceeding the target for the year of 85 percent positive. Of the 4,038 British Columbians who responded to WorkSafeBC's five surveys in 2012, 3,612 respondents said WorkSafeBC is making a very positive or somewhat positive contribution to the province.

Major programs and strategies

WorkSafeBC's public contribution rating is not associated with a specific group of programs or initiatives. Rather, it measures British Columbians' perceptions of all aspects of our organization including prevention initiatives, claim management and adjudication, worker and employer education, return-to-work and rehabilitation programs, customer service, financial stability, communications, and more. The rating reflects on all WorkSafeBC activities, summarizing the degree to which we are viewed — and valued — as contributing to society.

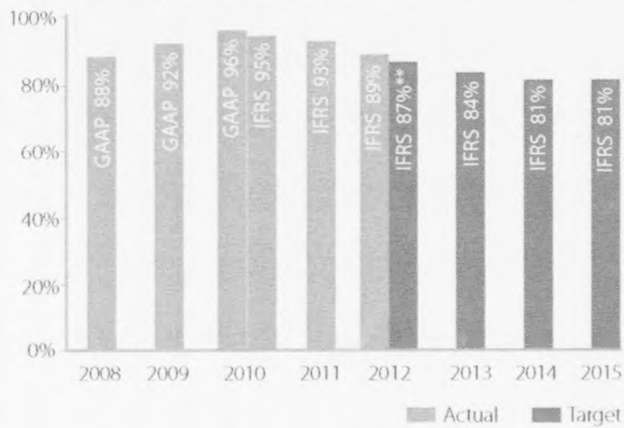
Over many years, WorkSafeBC's extensive public awareness campaigns have very likely contributed to our increasingly strong public contribution rating. In 2012, the following helped with the goal of increasing awareness and changing behaviours toward workplace safety: the Stay on Top steep-sloped residential roofing and framing enforcement blitz; the launch of the Domestic Violence in the Workplace Tool Kit; two Slow Down campaigns for workers whose duties call for them to work in proximity to vehicle traffic; the launch of the RoadSafetyatWork.ca safe driving website; the Raise Your Hand social marketing campaign for young worker safety; our participation in 24 Day of Mourning ceremonies across B.C. and six parades reaching more than one million people; multicultural safety advertising to reach workers whose first languages are Punjabi or Mandarin; our partnership with Preventable—The Community Against Preventable Injuries; and much more.

Looking ahead

In 2013, WorkSafeBC will continue creating targeted and impactful campaigns to capture the attention of our stakeholders and the public, striving to change attitudes and behaviours about workplace safety across all high-risk industries and demographics. We will attempt to build greater understanding of worker and employer needs and perceptions through research and analysis of their service experience. Using this foundation, we will create health and safety programs, products, and services that will yield even greater impact on our stakeholders — thereby creating a more positive service experience and further improving public perception of WorkSafeBC.

Key objective/performance indicator #8: Achieve 100 percent of the target asset level

Percentage of target asset level achieved* **



* The accounting policies used to determine the 2008–2010 figures above were based on Canadian generally accepted accounting principles (GAAP) in place through 2010. Actual numbers for 2011–2012 and targets for 2012–2015 are based on International Financial Reporting Standards (IFRS), reflecting the adoption of those standards by WorkSafeBC beginning in 2011 (with comparative IFRS figures provided for 2010). Figures for 2008–2009 were not restated due to the application of IFRS perspective transition adjustment rules as at January 1, 2010.

** The original 2012 target was 89 percent, as published in the *2011 Annual Report and 2012–2014 Service Plan* based on 2011 Office of the Superintendent of Financial Institutions (OSFI) methodology. Using the revised 2012 OSFI methodology, the 2012 target is 87 percent.

Background

WorkSafeBC determines its funding adequacy by measuring actual assets on hand against a target asset level:

Actual assets ÷ target assets

Actual assets are the total assets held by WorkSafeBC, as shown in the consolidated statement of financial position (see page 68).

The target asset level is calculated by adding the following three components:

- Total liabilities
- The various categories of reserves appropriated, as described in Note 11 of the consolidated financial statements (see page 104), excluding the Capital Adequacy Reserve
- The target level of the Capital Adequacy Reserve[22] (see Note 11 of the consolidated financial statements, page 105)

This is a variation of the method other Canadian workers' compensation boards and the Association of Workers' Compensation Boards of Canada (AWCBC) use to measure funding adequacy, given that other organizations use only their liabilities as a denominator. Using the AWCBC method and, according to the most recent data available (2011), WorkSafeBC enjoys one of the strongest funded positions of all workers' compensation boards in Canada (see Appendix B, page 119).

Importance

As an insurer, WorkSafeBC has significant fiduciary responsibilities — including ensuring the compensation system remains financially viable, which is important for injured workers. Achieving this objective requires targeting an asset level sufficient to fund all future expected payments for current claims while considering risks to on-hand assets and liabilities.

Strong capital reserves serve the interests of employers by dampening the rate volatility that would otherwise arise from fluctuating returns on investments and/or unforeseen costs beyond those assumed in the liabilities. WorkSafeBC invests in a balanced portfolio (see Financial Context, page 12) that includes equity investments which are expected to result in higher, long-term returns. Higher returns allow lower long-term net employer premiums but are subject to greater short-term swings in market value. Similarly, because WorkSafeBC's liability payments are long term in nature they are subject to potential changes in environmental factors or policies, some of which could potentially result in major cost increases. When either of these risks occur — a significant downturn in equity values, or significant unanticipated costs — WorkSafeBC can draw upon capital reserves to limit employer premium rate increases.

Setting targets

The long-term target for this performance indicator is 100 percent of the target assets. We work toward this funding level by setting aside funds in the Capital Adequacy Reserve in economically good years (see the Management Discussion and Analysis, page 59). At this optimum funding level, we will have a sufficient capital reserve to withstand the risks inherent in the assets and liabilities (see Note 19 of the Consolidated financial statements, page 109).

For 2013, the target has been set at 84 percent, followed by 81 percent for 2014 and 2015. Each year, WorkSafeBC develops targets for the next three years by projecting likely financial results while considering factors such as expected investment returns and inflation, injury rate and claim duration trends, and likely outcomes of current strategies. The targets for 2013 and 2014 were adjusted from 89 percent published in the *2011 Annual Report and 2012-2014 Service Plan* as financial results are expected to be less favourable and capital requirements have increased as a result of amended OSFI guidelines.

While 100 percent is the optimum target, values in any given year may rise above or fall below this long-term target level, particularly as equity markets rise and fall. Since the 100-percent target level includes substantial reserves, and since the current and targeted levels for this measure over the next three years still equate to an expected level of about 110 percent of assets over liabilities (the comparative AWCBC measure[23]), we are confident the published target amounts reflect the system's continued viability.

Performance highlights

At 2012 year-end, WorkSafeBC's actual assets were 89 percent of the target value of assets required. A detailed calculation of this KPI is shown in the table below.

	As at Dec. 31, 2012 ($ millions) (IFRS)	As at Dec. 31, 2011 ($ millions) (IFRS)
Actual assets	$13,152	$12,548
Liabilities	$10,802	$10,004
Target Capital Adequacy Reserve*	$3,434	$2,897
Other reserves	$590	$590
Target assets	$14,826	$13,491
Key objective/ performance indicator (=actual assets/ target assets)	89%	93%

* For more information on the Capital Adequacy Reserve, see the Management Discussion and Analysis, page 59 and Note 11 of the consolidated financial statements, page 104.

The decrease in this indicator reflects a reduction in the level of capital, made up of the unappropriated balance and reserves. The operating loss in 2012 reduced our unappropriated balance and we drew on the reserves in 2012 to limit premium rate increases.

Decisions made in earlier years regarding investment and reserve policies built up our level of capital, buffering WorkSafeBC from losses including the full effect of declining markets in 2008 which saw an investment loss of 8.2 percent.

Major programs and strategies

To move toward an asset level of 100 percent of the target assets, WorkSafeBC strives to apply sound investment policies and practices, prudently manage the employer assessment process, and reduce claim costs by helping B.C. industries achieve lower injury rates and higher return-to-work rates.

WorkSafeBC maintains a conservative, diversified investment portfolio to provide solid investment returns without undue risk to the system. By applying this prudent approach, we provide reasonable assurance that, in the long term, investment returns will cover inflationary increases to claim benefit liabilities.[24]

The workers' compensation system relies primarily on employer premiums as a key income source. To ensure timely and accurate collection of employer premiums, we work closely with employers to verify estimated payrolls, confirm receivable amounts, collect overdue accounts, and educate employers about their payment obligations and potential savings opportunities. WorkSafeBC also investigates employers that default on their payments and may initiate proceedings against these employers, resulting in administrative penalties or court-imposed sanctions.

Claim costs relating to injured workers account for approximately 96 percent of all liabilities against the Accident Fund. WorkSafeBC acts in partnership with workers, employers, safety associations, unions, and other key stakeholders to reduce the incidence of occupational injury, disease, and death (see key objective/performance indicator #1, page 24). When these incidents do occur, we try to resolve claims quickly, safely returning injured workers to lasting employment — strategies that greatly impact claim cost reductions (see key objective/ performance indicators #2 and #3, pages 27 and 29, respectively).

Looking ahead

Among other factors, this key objective/performance indicator is based on the market value of our assets (the numerator of the benchmark ratio). Thus, a certain level of volatility can be expected in the future as equity markets continue rising and falling.

WorkSafeBC's Board of Directors considers the financial stability and sustainability of the workers' compensation system a key priority. Consequently, we set assessment rates using smoothed accounting rather than fair value accounting. This approach dampens the volatility (in both market and metrics) referred to above (see Financial context, page 12). According to WorkSafeBC policy, we will draw upon our Capital Adequacy Reserve as required to limit year-to-year premium rate increases for employers. In 2012, $203 million was drawn from the Capital Adequacy Reserve, as required by this policy, to limit the increase in the employers' average 2013 premium rate. Financial sustainability and security will be achieved by maintaining an adequate level of capital, through collection of assessments, and prudent investment of the Accident Fund.

The targets for this KPI, set through 2015, reflect future investment returns that are expected to be less robust than the average returns over the last 10 years. In 2014, WorkSafeBC will begin recognizing liability for long-latency occupational disease, and is expected to add to future costs — a consideration incorporated into our established targets (see Note 10 of the consolidated financial statements, page 97). Given these factors, we anticipate continuing to draw down from the Capital Adequacy Reserve through 2015 to dampen year-over-year rate increases.[25] Thus, in 2013 we expect a decrease in this KPI.

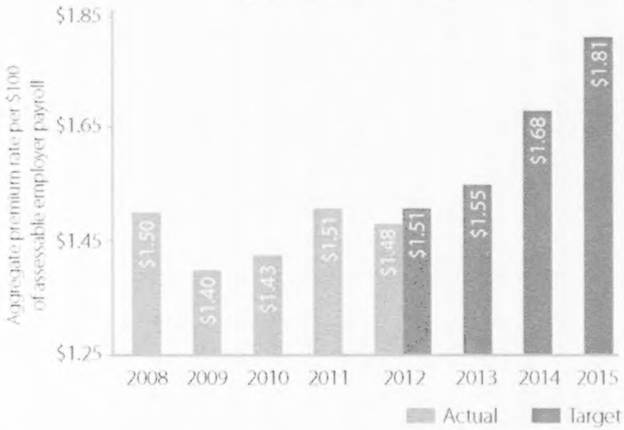
To maintain performance levels in this area, we manage administrative costs, work with employers to reduce injuries and improve return-to-work outcomes, and apply a prudent investment strategy. However, striving for the long-term goal of 100 percent of the target asset level depends largely on obtaining investment returns in excess of actuarial assumptions. In years when returns outperform assumptions, we usually expect to move closer to our ultimate target of 100 percent. Since it is impossible to accurately forecast short-term financial market fluctuations, such outperformance is not built into our 2013–2015 targets.

The Board of Directors has instructed WorkSafeBC to conduct a review of the existing Capital Adequacy Policy and reporting. This review is expected to conclude in 2013, likely resulting in some changes to targets in this area. Projections to 2015 do not reflect potential future changes to the target methodology.

The KPI projections were developed in the context of current accounting and actuarial standards stipulating that investments are stated on the statement of financial position at market value, whereas claim benefit liabilities are determined using long-term assumptions. However, revisions to International Financial Reporting Standards for insurance liabilities are in development and expected to be implemented no earlier than 2017. These new standards could substantially impact this indicator.

Key objective/performance indicator #9: Attain an aggregate premium rate between $1.25 and $2.25[26]

Aggregate premium rate



Rates shown are final for 2008–2011 and estimated for 2012–2015[27]

Importance

WorkSafeBC collects premiums from employers to cover the cost of operating the workers' compensation system. In exchange employers are protected from lawsuits arising from work-related injury, disease, and death, while workers receive no-fault insurance.

The aggregate premium rate is defined as:

(Annual assessments ÷ annual assessable payroll) x 100

Employer premiums vary depending on the cost of claims in the employer's specific industry sector and the value of WorkSafeBC's total assets, but we aim to maintain an aggregate premium rate between $1.25 and $2.25 per $100 of assessable payroll. If this rate goes above $2.25 it can place excessive financial strain on employers; if the rate dips below $1.25 it can weaken the long-term financial sustainability of the system (based on the current environment).

Setting targets

Across Canada, 2012 base premium rates ranged from $1.22 to $2.75 per $100 of assessable payroll, averaging around $1.97 (see Appendix B, page 119). This variation is attributed to the differing mix of industries and benefit levels, funding levels, and coverage rules in specific jurisdictions.

Given the funding level range and premium levels in other jurisdictions, WorkSafeBC's target range of $1.25 to $2.25 is still considered optimal. If the injury rate continues falling and injured workers are returned to work quickly, costs will drop — also reducing pressure on premiums.

Performance highlights

The 2012 average premium rate collected from employers in B.C. was $1.48 per $100 of assessable payroll, a decrease of 2.0 percent from the 2011 aggregate rate of $1.51. This relative stability in the aggregate premium rate is consistent with the stability of the 2012 published base rate, unchanged from the 2011 level of $1.54.

WorkSafeBC's 2012 base premium rate of $1.54 remains among the lowest in Canada (see Appendix B, page 119). Overall, in 2012 approximately 61 percent of employers experienced a reduction or no change in their base premium rates, while 39 percent experienced an increase.

Major programs and strategies

Claim costs are the primary driver of the aggregate premium rate. To reduce claim costs, WorkSafeBC acts in partnership with employers, workers, and other key stakeholders to strengthen workplace health and safety; reduce the incidence of workplace injury, disease, and death; and assist workers in safe and durable return to work as soon as possible following injury. Our prevention activities include educating and consulting with workers and employers on key health and safety issues, forging partnerships with industry associations to reduce workplace injury and illness, and reaching out to high-risk industry sectors and particular groups such as young workers.

Prevention of injury and illness is the first — and best — strategy for reducing claim costs, but when injuries do occur the single biggest factor affecting claim costs is timely return to work. WorkSafeBC employs various strategies and programs to reduce claim duration and return injured workers to employment in a safe and timely manner (see key objectives/performance indicators #1 and #2, pages 24 and 27, respectively).

With the assistance of WorkSafeBC's vocational rehabilitation consultants, employers, and training organizations, most workers referred to WorkSafeBC's vocational rehabilitation program are successful in returning to work (see key objective/performance indicator #3, page 29).

Looking ahead

In 2013, the estimated aggregate premium rate is expected to increase to $1.55 per $100 of assessable payroll from the 2012 level of $1.48. This 2013 rate increase is primarily due to the amortization of rate group deficits[28] in recent years, attributable in significant part to underperformance in smoothed investment returns in 2011 and 2010. In 2013, base premium rates will increase for 65 percent of B.C.'s registered employers while declining or remaining unchanged for 35 percent. On average, rates are expected to rise through 2015.

The target rate for 2014 ($1.68) is higher than the corresponding target shown in last year's annual report ($1.62). The primary reason for this increase is the re-evaluation of assessment and payroll levels underlying the 2014 target rate. Forecast assessments are now higher and projected payrolls now lower than previously estimated.

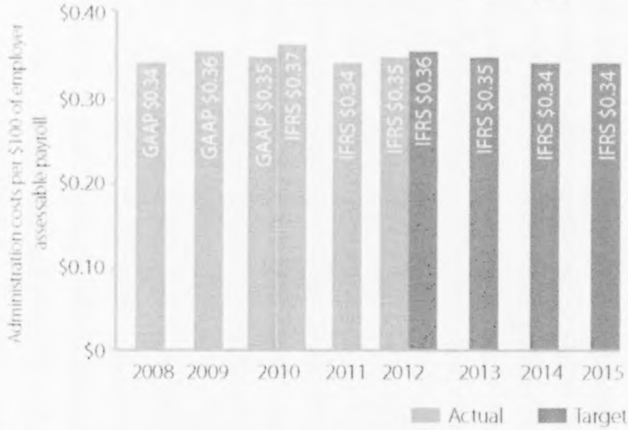
Any future reductions in base premium rates would depend primarily on a lower injury rate, and/or a higher return-to-work rate for injured workers. Premium rate reductions could also result from favourable changes in external factors such as the performance of financial markets or shifts in the general mix of workers and businesses participating in the B.C. economy.

WorkSafeBC expects relatively stable injury rates and continuing low inflation. However, due to low bond yields and economic uncertainty in most major markets, near-term future investment returns are expected to be relatively low. Somewhat offsetting lower investment returns and other economic risks, we will continue to refine and enhance our prevention initiatives, return-to-work programs, financial investment strategy, and other activities that either directly or indirectly influence premium rates. Taking all these factors into consideration, we are forecasting increases in the aggregate average premium rate to $1.68 for 2014 and $1.81 for 2015.

The reasons for the projected premium rate increases are two-fold: the cost of new injuries is projected to increase, and the deficit position of the rate group balances[29] is projected to deteriorate. Our rate-setting methodology requires the recovery of deficits from employers via higher premium rates. To view supplementary information about WorkSafeBC's published base rates and final aggregate premium rates since 2007, visit WorkSafeBC.com.

Key objective/performance indicator #10: Control administration costs[30]

WorkSafeBC's administration costs* **
per $100 of assessable employer payroll



* The accounting policies used to determine the 2008–2010 figures above were based on Canadian generally accepted accounting principles (GAAP) in place through 2010. Actual figures for 2011–2012 and targets for 2012–2015 are based on International Financial Reporting Standards (IFRS), reflecting the adoption of those standards by WorkSafeBC beginning in 2011 (with comparative IFRS figures provided for 2010). The 2008–2009 figures were not restated due to the application of IFRS transition adjustment rules as at January 1, 2010.

** The 2008–2011 results and 2012 target were restated from the figures published in the *2011 Annual Report and 2012–2014 Service Plan* due to an adjustment in the method of calculating the administration cost ratio, to achieve greater consistency with the calculations used by other Canadian workers' compensation organizations. The adjustment in each year was a reduction of less than $0.01. In most years, the adjustments are not readily apparent, due to rounding to two decimal spaces.

Importance

WorkSafeBC aims to provide value to stakeholders by delivering the highest level of service in the most cost-effective manner. One way we measure our administrative efficiency is by calculating our annual administration costs per $100 of assessable employer payroll.

Other Canadian workers' compensation organizations also use administration costs as a key statistical indicator, based on a common definition of administration costs, with adjustments to allow for operating and legislative differences (see Appendix B, page 120). The common definition of administration costs is provided by the Association of Workers' Compensation Boards of Canada (AWCBC). By calculating our annual administration cost ratio, WorkSafeBC can compare and monitor the overall cost of administering the B.C. workers' compensation system.

Setting targets

In setting targets for our administrative cost ratio, WorkSafeBC balances the need to remain cost-effective with the need to maintain high service levels for workers and employers. Both internal and external factors affect WorkSafeBC's performance and decision making in this area. For example, a decrease in the number of WorkSafeBC employees performing claim-related work could lower the organization's administration costs. But such a reduction could also trigger longer rehabilitation times and lower return-to-work outcomes for injured workers, potentially increasing claim costs by more than the administration costs saved.

An improvement in B.C.'s economic activity could also cause an increase in the province's total assessable payroll, decreasing the organization's ratio of administration costs per $100 of payroll; similarly, a decline in economic growth could have the opposite effect. Given these variables WorkSafeBC sets targets based on best estimates of our overall capacity, and relative to B.C.'s expected economic growth. Since all workers' compensation organizations face similar administrative and financial challenges, this measure is suitable for tracking our performance in relation to other workers' compensation systems in Canada.

Performance highlights

For the five-year comparison of actual results shown in the chart, the highest administrative cost ratio was in 2010. The higher-than-normal ratio was primarily due to WorkSafeBC's transition to the International Financial Reporting Standards (IFRS); the one-time transition accounting adjustments increased the 2010 administration cost ratio by $0.02, or an adjustment of this indicator to $0.37. The decrease in 2011 was due to lower employee benefit costs, in part because of actuarial adjustments. The indicator returned to a normal level in 2012.

In 2012, WorkSafeBC's administration costs increased by $33 million (or $17 million for the subset of administration costs included in the AWCBC definition of administration costs) and the province's assessable payroll increased by $2.9 billion. As a result, in 2012 the administration cost ratio increased to $0.35, but still below the target of $0.36.

Higher administration costs in 2012 were: $11 million for increases in payroll costs, $10 million for actuarial adjustments made to the employee pension plan, $2 million for increases in fees paid to sessional physicians, and $1 million for increased costs for the offices of the Workers' Compensation Appeal Tribunal, Workers'

Advisers, and Employers' Advisers. The remaining $9 million was not the result of an increase in year-over-year spending, but due to reversals in 2011 of provisions previously set up for employee costs that did not materialize.

As noted, the $11-million increase in payroll costs includes an increase in the staff complement to enhance quality control in claim management, providing support to handle claim backlogs, and resources to manage claims stemming from the legislative change broadening mental disorder claims coverage, as well as a 2-percent negotiated increase in bargaining unit staff salaries.

Major programs and strategies

WorkSafeBC monitors and manages administration costs through a system of internal controls, including:

- Monthly reviews and analyses of administration costs, including explanations of any significant variances from plan by each division's financial manager with the Chief Financial Officer and Corporate Controller
- Monthly reporting of administration costs and variances to the President and Chief Executive Officer and the Senior Executive Committee, and regular reporting to the Audit Committee of the Board of Directors
- Quarterly business plan and budget reviews with the president and Chief Executive Officer, Chief Financial Officer, and Corporate Controller by each division's Senior Vice-President and/or Vice-President

Looking ahead

The administration cost ratio can be impacted by changes to the ratio numerator (administration costs) or the denominator (the province's assessable payroll). For the numerator, WorkSafeBC has budgeted for administration costs to increase over the previous year's budget by 3.1 percent for 2013, 3.5 percent for 2014, and 2.7 percent for 2015. These increases are primarily to cover non-discretionary cost increases, including employee benefits and other contractual commitments.

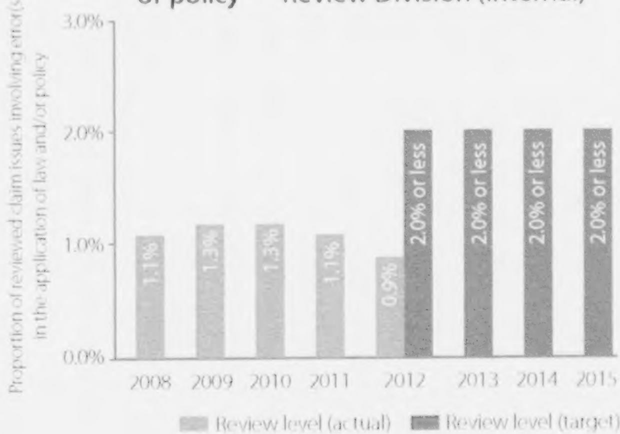
For the denominator, assessable payroll is expected to increase by 3.9 percent in 2013, 4.2 percent in 2014, and 4.4 percent in 2015, based on projected changes in B.C.'s labour income as estimated by the provincial Ministry of Finance.[31] The higher expected change in assessable payroll, compared to administration cost growth, contributes to expected reductions in this ratio in each of the coming years; due to rounding this is not apparent in the reported figures.

As compared to targets in this area published in the *2011 Annual Report and 2012–2014 Service Plan*, WorkSafeBC has adjusted the targets downward by $0.01 per $100 of assessable payroll in 2013 and 2014 due to a revised assumption regarding the portion of costs qualifying for inclusion in the AWCBC measure.[32]

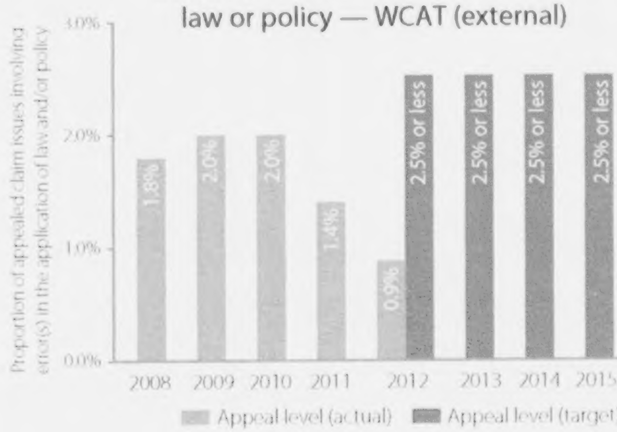
WorkSafeBC will continue monitoring and evaluating the balance between controlling its administration costs and ensuring a high quality of service while preparing to adjust that balance to best meet our stakeholders' needs.

Key objective/performance indicator #11: Improve decision making throughout WorkSafeBC, ensuring consistency with legislation and policy

Claim issues leading to overturned decisions due to WorkSafeBC error in law or policy — Review Division (internal)



Claim issues leading to overturned decisions due to WorkSafeBC error in law or policy — WCAT (external)



Importance

Each working day WorkSafeBC employees make thousands of decisions regarding compensation, prevention, assessment, and rehabilitation matters affecting B.C. workplaces. Their underlying goal is to arrive at the correct decision by weighing evidence in a consistent manner while ensuring compliance with applicable law and policy. In the absence of a law or policy to cover every conceivable situation, each issue must be decided on its own merits, within the parameters of applicable law and policy.

In most cases the decisions are accepted by those involved. Nonetheless, workers and employers have the right to appeal decisions if they disagree with WorkSafeBC's findings. For most decisions, two levels of appeal are available. The first level involves an internal review by our Review Division to ensure appropriate decisions have been made on issues in dispute. The second level involves the Workers' Compensation Appeal Tribunal (WCAT), a final, external source of appeal for WorkSafeBC matters the tribunal is authorized to hear and decide.

Both the Review Division and WCAT are important components of the adjudicative process. Their findings help offer better understanding of the principles related to workers' compensation adjudication and can also highlight the need for policy reform, enhanced employee training, or additional stakeholder education.

Setting targets

Following the review or appeal of a WorkSafeBC decision, based on the receipt of new information or the consideration of existing information, the Review Division or WCAT may reach a conclusion that differs from the original decision. Such findings are part of the normal inquiry process. We also track the rate of errors coded by the Review Division or WCAT in applying law and/or policy — the most objective and readily available measure of quality decision making.

Ideally, WorkSafeBC would decide every issue on every claim in accordance with law and policy. However, the everyday realities associated with maintaining adequate staffing levels, handling a high volume of complex claims, providing ongoing training, meeting deadlines, and ensuring precision and accuracy in claim-coding judgments are all barriers to a zero-error rate.

In light of these practical limitations, WorkSafeBC has established key objective/performance indicator #11 as an indicator of quality decision making. Our Board of Directors has set the practical target error rate at 2.0 percent or less for primary decisions reviewed at the Review Division level and 2.5 percent or less for Review Division decisions appealed at the WCAT level. These targets have been extended to 2015.

Review Division — Outcomes of top five issue groups reviewed in 2012
(represents 65 percent of all issues and does not include issues returned for further consideration during 2012)

Issue group*	Decision upheld	Allowed or allowed in part due to error in law	Allowed or allowed in part due to error in policy	Allowed or allowed in part due to reweighing of existing evidence	Allowed or allowed in part due to reweighing with new evidence
Entitlement to a permanent partial disability award	2,773	13	21	387	207
Acceptance of a claim for an injury	2,608	6	21	324	302
Entitlement to a compensation for a temporary partial disability	630	3	6	161	102
Vocational rehabilitation	589	0	1	212	61
Acceptance of a claim for an occupational disease	751	0	3	36	39

* Issue groups have been stated in plain language.

Workers' Compensation Appeal Tribunal — Outcomes of top five issue groups appealed in 2012
(represents 71 percent of all issues heard by WCAT in 2012)

Issue group*	Decision upheld	Allowed or allowed in part due to error in law	Allowed or allowed in part due to error in policy	Allowed or allowed in part due to reweighing of existing evidence	Allowed or allowed in part due to reweighing with new evidence
Acceptance of a claim for an injury	944	1	4	62	426
Entitlement to a permanent partial disability award	493	5	4	92	376
Acceptance of a claim for an occupational disease	301	0	2	9	158
Entitlement to compensation for a temporary partial disability	225	1	3	50	134
Entitlement to a compensation for a temporary total disability	190	0	2	29	87

*Issue groups have been stated in plain language.

Performance highlights

In 2012, the Review Division reviewed a total of 15,515 issues relating to 11,937 WorkSafeBC decisions. Of these issues, 136 (0.9 percent) led to overturned decisions because of a perceived error in the application of legislation or policy — better than the established target for the year. WCAT ruled on 5,030 issues relating to 3,336 completed appeals of Review Division decisions. Of these issues, 43 (0.9 percent) resulted in overturned decisions due to a perceived error in the application of legislation or policy — also better than the year's established target.

Overall, the Review Division confirmed 69 percent of the issues it reviewed; 20 percent were allowed, or allowed in part, while 11 percent were returned to WorkSafeBC (back to the initial decision-making division for further investigation or determination). Of the total appeals WCAT examined in 2012, 61 percent of issues were confirmed while 39 percent were allowed or allowed in part.

Major programs and strategies

To ensure decisions made under the *Workers Compensation Act* are consistent with legislation, regulation, and policy, WorkSafeBC undertakes various programs to educate decision makers on appropriate methods of evidence-gathering and weighting, decision making, and documenting.

We also operate quality councils for compensation, prevention, and assessment decision making. These senior-level councils, including representatives from different areas of our organization, review ongoing issues relating to the quality of decision making and develop plans for rectifying any identified problems. To complement this strategy, we collaborate with various working areas of the organization to help identify everyday service concerns and develop and implement immediate and long-term solutions.

Through 2012, WorkSafeBC's Review Division continued the quality decision review process. As part of this process, team managers and the quality assurance group review select decisions — either before or after decisions are issued. This involves reviewing the quality of the Division's decisions, including the appropriate application of law and policy. Without encroaching on the independence of its decision makers, review officers also peer review each other's draft decisions and provide constructive feedback before final decisions are released. Our Review Division's quality assurance group also conducts in-depth reviews of decisions as well as training in all subject areas, including compensation, assessment, and prevention matters.

Looking ahead

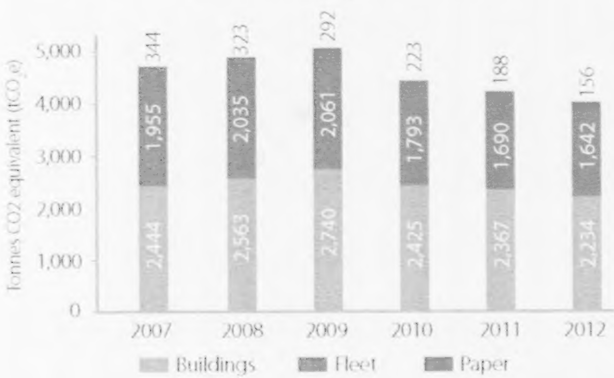
Our Review Division will continue building on its efforts to provide timely, formal, first-level dispute resolution while actively looking for efficiencies in decision making and remaining focused on quality and customer service. Increased incoming review volumes, adjustment to new policies, and staff movement will continue putting pressure on decision makers and could potentially result in the introduction of additional errors in the application of law and policy, or in coding errors. Ongoing training and initiatives to enhance quality should help mitigate this risk. WorkSafeBC will continue monitoring claim and review volumes, adjusting resources where necessary.

Corporate Social Responsibility

Environmental management

WorkSafeBC lightens its environmental footprint by adopting operational practices that will reduce greenhouse gas emissions and divert waste from landfills. In 2012, we continued voluntarily reducing our greenhouse gas emissions — in keeping with our commitment to align with the B.C. government's Climate Action Plan; it has established emissions targets for 2020 that are one-third below 2007 levels.

Greenhouse gas emissions



Waste diversion

Using the Climate Action Plan's SMARTTool we measure and report our greenhouse gas production from three sources: our buildings, vehicle fleet, and office paper. In 2012, metrics in all three were reduced over our 2011 results — totalling a 5-percent decrease. The gases were further reduced from the 2007 baseline by 15 percent, putting us on track to reach the 2020 target.

In addition to our continuing commitment to reduce greenhouse gases, we are taking steps to generate less waste and divert it from landfills. In 2012, we generated 37 percent less waste than the previous year, from 642.6 tonnes to 404.4 tonnes. Of this waste, we diverted 266.6 tonnes to recycling and 29.2 tonnes to composting, disposing of 108.7 tonnes.

Because we produced substantially less waste, we also recycled less than the previous year; however, we were able to compost more because we expanded our organic composting program to include yard and landscaping waste from the Richmond office.

In 2010, WorkSafeBC aligned the waste diversion targets for its Richmond office with those established by Metro Vancouver — setting targets of 70 percent diversion by 2015, and 80 percent by 2020. Overall, in 2012 we diverted 73 percent of our waste from landfills.

Employee leadership in the community

WorkSafeBC employees are active community members who are committed to making a difference. In addition to their personal efforts, in 2012 our employees volunteered their time and offered donations in several ways:

- WorkSafeBC provided safety vests and work gloves to the Working Gear Clothing Society, and staff collected interview and industry-appropriate clothing, including steel-toed work boots. Working Gear is a Vancouver-based, non-profit society that assists low-income unemployed men in returning to the workplace by providing work clothing, including approved safety gear, at no cost.
- WorkSafeBC staff donated 418 units of blood to Canadian Blood Services, placing us in the top 10 percent of corporate blood donors across British Columbia.
- Almost 800 WorkSafeBC employees donated more than $134,000 to registered charitable organizations through a payroll deduction plan and other fundraising events organized by our Helping Hands employee charity group. Helping Hands is a volunteer-lead group of WorkSafeBC employees that collects funds on behalf of employees for disbursement to assorted charities. Funds collected during the calendar year are disbursed the following April/May after financial reconciliation, review of employee designation requests, and engagement with perspective charitable organizations for disbursement of the undesignated portion of funds received.
- In September, a record 111 WorkSafeBC employees, family, and friends volunteered in The Great Canadian Shoreline Cleanup, collecting, sorting, and recording the removal of 207 kilograms (456.3 pounds) of garbage at Garry Point Park in Richmond.
- In November, WorkSafeBC employees contributed to the Movember campaign, raising almost $30,000 in support of prostate cancer and men's mental health initiatives.
- In December, a volunteer team from Special Care Services assisted with hanging lights for Bright Nights, a Stanley Park event in support of the Professional Fire Fighters' Burn Fund.

Our Finances

Management Discussion and Analysis

This section reports on WorkSafeBC's consolidated results and financial position for the year ending December 31, 2012. It should be read in conjunction with the consolidated financial statements and accompanying notes. This annual report and service plan contains forward-looking information, including assertions regarding the anticipated performance of WorkSafeBC. These assertions are subject to a number of risks and uncertainties that may cause actual results to differ from those outlined in the forward-looking information.

WorkSafeBC adopted International Financial Reporting Standards (IFRS) in 2011 requiring the restatement of 2010 financial statements to conform to the new accounting standards. In years prior to the conversion to IFRS, this section presented five years of comparative information for selected revenue, expense, and balance sheet items. This year, only three years of comparative information are provided. Financial information dating back further than 2010 was not restated due to the application of IFRS transition adjustment rules as at January 1, 2010.

The *2012 Annual Report and 2013–2015 Service Plan* and *WorkSafeBC 2012 Statistics* publication are both available at www.worksafebc.com/publications/reports/annual_reports. Also available online is supplementary information regarding WorkSafeBC's operating results from an underwriting perspective, including the 10-year summary table, a gain and loss analysis, and a statement of changes in rate group balances — three supplementary schedules prepared based on the smoothed[33] accounting approach.

Overview of 2012 financial results

2012 and 2011 highlights	2012	2011	Change
Financial highlights ($ millions)			
Portfolio investments	12,466	11,840	626
Benefit liabilities	10,387	9,655	732
Unappropriated balance	1,087	1,046	41
Accumulated other comprehensive income (loss)	(290)	(257)	(33)
Reserves	1,552	1,755	(203)
Premium income	1,163	1,145	18
Investment income	1,128	488	640
Other income	11	9	2
Claim costs	2,249	1,645	604
Operating costs	215	210	5
Surplus (deficit) from operations	(162)	(213)	51
Other comprehensive income (loss)	(33)	(87)	54
Total comprehensive income (loss)	(195)	(300)	105
Operational highlights			
Percentage of target funding level achieved (see key objective/ performance indicator #8, page 36)	89%	93%	(4 percentage points)
Aggregate premium rate (see key objective/performance indicator #9, page 39)	$1.48	$1.51	($0.03)
Number of insured employers	214,801	210,673	4,128
Number of workers covered (millions)	2.19	2.16	0.03
Injury rate (see key objective/performance indicator #1, page 24)	2.34	2.34	—
Number of claims accepted	104,710	103,940	770

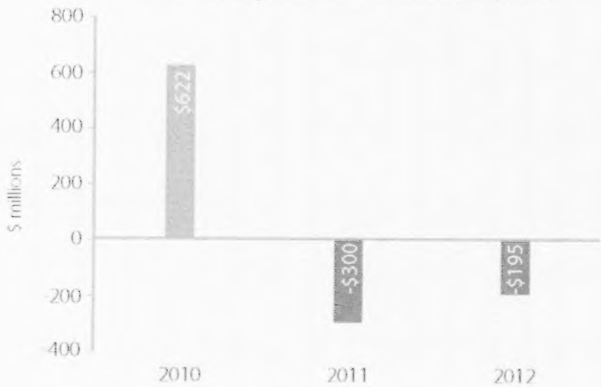
As detailed within this Management Discussion and Analysis, WorkSafeBC planned to have a loss in 2012. While this may seem counterintuitive to normal business practices, it is in fact appropriate in the context of our pricing policy. Simply stated, this policy provides for temporarily *under-pricing* assessment rates below levels needed to meet current-year costs in order to return accumulated positive results from past years and to *cap* significant assessment rate increases (see Note 12 of the consolidated financial statements, on page 106, for further detail). In years such as 2012, this means a loss for the year was the budgeted and expected result.

WorkSafeBC's total comprehensive loss of $162 million in 2012 is in fact significantly less than the loss anticipated in the plan for the year (see Comparison to plan, page 60); it is also less than the loss experienced in 2011. The improved result was primarily due to higher-than-anticipated investment returns, although those higher returns were offset to a large extent by higher-than-expected claim costs for the year.

Higher claim costs in 2012 were not, for the most part, due to an increase in the provincial injury rate. That rate remained level in 2012 — at 2.34 — and near the lowest rate on record (see

key objective/performance indicator #1, page 24). Rather, the main causes of higher claim costs were increased liabilities for future health care costs and longer life expectancies for injured workers with long-term disability and survivor benefit claims.

Total comprehensive income (loss)



Premium income was higher in 2012, a positive reflection of the B.C. economy. The total premium income is a function of the assessment rate applied against the province's employers' assessable payroll. The average assessment rate decreased to $1.48 in 2012 from $1.51 in 2011, but premium revenue grew as a result of increases to provincial labour income and assessable payroll (see key objective/performance indicator #9, page 39). Premiums should normally cover the cost of current-year injuries and operating costs. However, as described above, WorkSafeBC has been returning an accumulated surplus to employers through reduced rates, and claim costs were higher than expected, so assessments levied did not cover all current costs (see Gain and loss table below).

In 2012, investment markets rebounded — our investment portfolio had a return of 9.5 percent in 2012, compared to 4.1 percent in 2011. As compensation benefits are indexed to inflation,[24] WorkSafeBC's investments are expected to provide sufficient returns to cover inflation plus the 3.0 percent discount rate[24] used to calculate the present value of future benefit liabilities. The required return for 2012 was 4.2 percent (2011: 5.9 percent), based on the inflation rate of 1.2 percent (2011: 2.9 percent) plus the 3.0 percent discount rate. See the chart on page 58 for a comparison of market return vs. required return. Investment income in excess of liability requirements in 2012 was $728 million, compared to a deficiency in 2011 of $51 million (see Gain and loss table below).

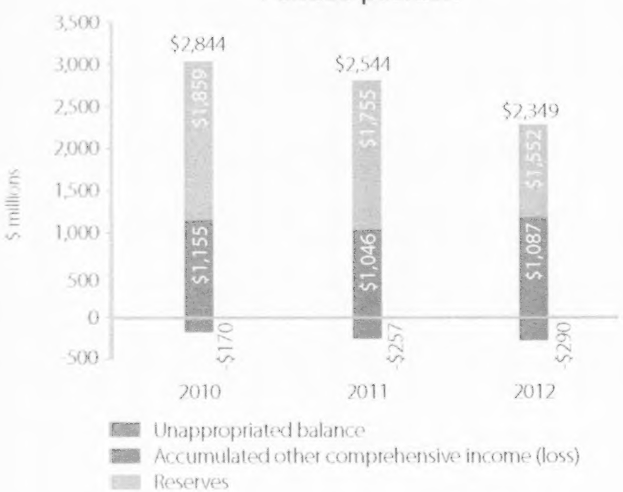
Gain and loss table

($ millions)	2012	2011	Change
Premium income excess (deficiency) over current-year costs	(273)	(138)	(135)
Investment income excess (deficiency) over liability requirements	728	(51)	779
Lower (higher) actuarial liabilities than previously anticipated			
Lower (higher) actuarial liabilities than previously anticipated, excluding one-time changes	(298)	(24)	(274)
Mortality basis change	(165)	—	(165)
Health care net discount rate change	(154)	—	(154)
Actuarial gains (losses) on employee benefit plans	(33)	(87)	54
Total comprehensive income (loss)	(195)	(300)	105

Benefit liabilities are established using actuarial factors that reflect cost experience (see page 58). Variances result in an increase or decrease to total comprehensive income — lower or higher actuarial liabilities than previously anticipated. In 2012, the net effect of the various components of this variance was a decrease to income of $617 million, compared to $24 million in 2011.

The $617 million loss consists of changes in liability assumptions for the mortality basis and net health care discount rate, accounting for $165 million and $154 million, respectively (see page 59). The remaining $298 million loss consists of the following deviations from expected results: $124 million due to increased use of and unit cost of health care services; $45 million for long-term disability and $12 million for survivor benefits resulting from higher pension award levels in 2012; $46 million for vocational rehabilitation and $23 million for short-term disability due to higher payments; and $48 million due to increased costs for claim administration.

Funded position



In keeping with our strategic objective to ensure long-term financial sustainability, we maintained a funded position (accumulated surplus) of $2.3 billion at the end of 2012. The funded position balance, made up of the unappropriated balance, accumulated other comprehensive income or loss, and reserves (see page 70 of the consolidated financial statements), has been decreasing due to consecutive years of losses, which include planned losses from the return of accumulated surplus to employers. Although the surplus has been decreasing, WorkSafeBC continues to be well positioned to meet future demands on the Accident Fund (see key objective/performance indicator #8, page 36). Included in the funded position are reserves with a total balance of almost $1.6 billion (see page 60). In 2012, WorkSafeBC's Capital Adequacy Reserve was reduced by $203 million; these funds were transferred to the unappropriated balance to help lessen premium rate increases in 2013. After this drawdown, as of December 31, 2012, the Capital Adequacy Reserve balance was just under $1 billion.

Revenues

At WorkSafeBC, revenues are made up of two primary streams: premium income and investment income.

Premium income

Premium income consists mostly of assessments received from rateable employers[35] and, to a much lesser extent, self-insured employers. Rateable premium income is derived primarily from total assessable payrolls multiplied by the rate appropriate for each employer.

Premium income

Premium income continued increasing in 2012. Although the slowdown in economic growth that started in the second half of 2011 continued into 2012, the B.C. economy still experienced growth. While the aggregate premium rate decreased slightly in 2012, assessable payroll continued to increase due to lower unemployment and some growth in the economy. This resulted in higher assessment revenues from a number of sectors, primarily construction, transportation, wood and paper products, and forestry.

Premium income			
($ millions)	2012	2011	Change
Rateable employers	1,130	1,103	27
Self-insured employers	33	42	(9)
Total	**1,163**	**1,145**	**18**
Base premium rate	$1.54	$1.54	—
Aggregate premium rate	$1.48	$1.51	($0.03)
Assessable payroll ($ billions)	$78.39	$75.48*	$2.91

*This figure has been restated. The *2011 Annual Report and 2012-2014 Service Plan* stated an estimate of $74.93 billion.

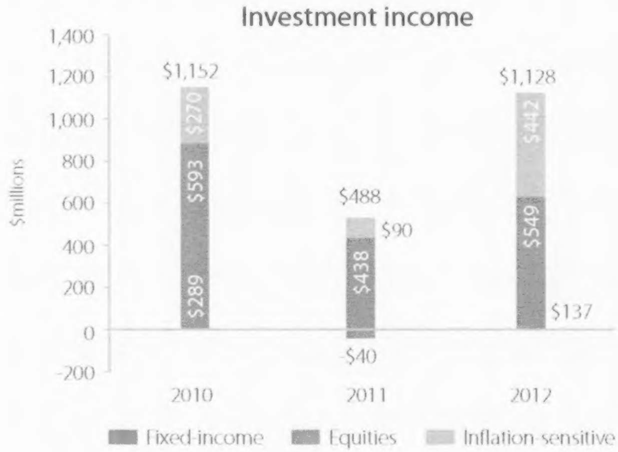
In 2012, the aggregate premium rate[36] of $1.48 per $100 of assessable payroll was slightly lower than the $1.51 in 2011; however, rates will increase in 2013 as average excess investment returns in recent years are no longer sufficient to allow for the same level of discounting of assessment rates from claim cost rates (see key objective/performance indicator #9, page 39). Until 2010 the aggregate premium rate had been declining since 2005, dropping $0.56 (28 percent) during that period. This decrease can be attributed primarily to: a downward trend in overall claim costs from 2001 to 2010, and robust investment returns from 2003 to 2006 and again in 2009 and 2010. Note: the base premium rate[36] had been declining since 2004, but has increased for 2013 after nine consecutive years of decreases.

Premium income from self-insured employers includes the recovery of claim costs paid on behalf of these employers, an allocation of administration costs to manage claims from their injured workers, and changes in the actuarial valuation of self-insured employers' benefit liabilities.

Premium income reported in the consolidated financial statements is partially based on estimates. The final premium amount for the 2012 assessment year will not be fully known until May 2013, when almost all employers will have submitted their final premium reconciliation statements. To meet the reporting deadlines of this annual report, WorkSafeBC estimated the value of premium income based on financial data from March 2013. Given the uncertainty associated with this estimate, the organization has tended toward a conservative approach. In the previous five years, the difference between the underestimated value of premium income and the final amount has not been more than 1.0 percent. Any difference between final remittances from employers and the accrued amount resulting from estimates is recognized as premium income in the following year.

Investment income

By legislation, WorkSafeBC is required to maintain an Accident Fund sufficient to meet all present and future costs (liabilities) for injuries arising in the current and previous years. A significant portion of the Accident Fund is invested in pooled funds and investment corporations managed by the British Columbia Investment Management Corporation (bcIMC). See the portfolio investments section (page 57) for a discussion on the total portfolio value gains in 2012.



In 2012, investment income of $1,128 million was $640 million higher than in 2011, based on returns of 9.5 percent, compared to 4.1 percent in 2011. All invested asset classes reported gains despite low global economic growth rates in 2012. The largest returns were $549 million from equity investments and $442 million from inflation-sensitive[37] investments. Income distributions and realized gains from sales accounted for more than half of 2012 investment income; the remainder was unrealized market value gains (see table below).

Investment income			
($ millions)	**2012**	**2011**	**Change**
Income distributions from pooled funds	467	434	33
Income distributions from investment corporations	43	37	6
Net realized gains on investments	197	63	134
Net unrealized gains (losses) on investments	421	(46)	467
Total	**1,128**	**488**	**640**

Other comprehensive income or loss

The other comprehensive income or loss (OCI) line item in the Statement of Comprehensive Income (Loss) appears below the operating surplus or deficit for the year, suggesting it be viewed in a different context from normal operations. OCI reflects gains or losses on remeasurements as a result of movements in the price or valuation of an asset or liability. According to the International Accounting Standards Board, the presentation of such remeasurements in OCI is to separate those changes from changes considered the result of an entity's day-to-day operations.

This presentation is consistent with the view that while the remeasurement data provides useful information, it is less useful than the items presented above the operating surplus or deficit line for predicting the likely amount and timing of operational cash flows.

WorkSafeBC's OCI consists entirely of actuarial gains or losses arising from post-employment employee benefit plans. In 2012, other comprehensive loss was $33 million (2011: $87 million), and accumulated other comprehensive loss was $290 million (2011: $257 million). These losses result primarily from a reduction in the discount rate (based on low current interest rates) used to calculate plan liabilities, partially offset by a gain in plan assets. See Note 9 (page 91) of the consolidated financial statements for further information.

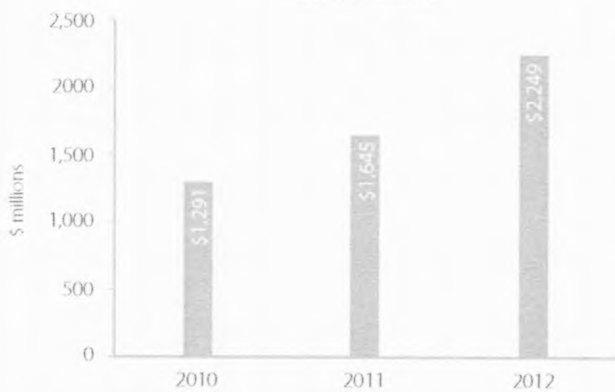
Expenses

WorkSafeBC's expenses consist of claim costs and other operating costs that include administration costs, injury research and reduction initiatives, and investment costs.

Claim costs

Claim costs consist of benefit payments and the change in actuarial valuation of benefits.

Claim costs



In 2012, benefit payments were $1.5 billion, an increase of $137 million from 2011, and actuarial valuation adjustments were $732 million, an increase of $467 million. Benefit payments also include an internal allocation of costs for the Vocational Rehabilitation department and for claim administration. The breakdown of these costs are noted in the following table.

Claim costs

($ millions)	2012 Benefit payments	2012 Change in actuarial valuation of benefit liabilities	2012 Total	2011 Benefit payments	2011 Change in actuarial valuation of benefit liabilities	2011 Total	Change
Short-term disability	301	23	324	293	20	313	11
Long-term disability	467	81	548	402	17	419	129
Survivor benefits	67	7	74	65	8	73	1
Health care	327	209	536	291	183	474	62
Vocational rehabilitation	112	23	135	100	33	133	2
Claim administration	243	60	303	229	4	233	70
Non-recurring costs:							
Mortality basis change		170*	170				170
Health care benefit net discount rate change		159*	159				159
Total	**1,517**	**732**	**2,249**	**1,380**	**265**	**1,645**	**604**

* The figures in this table differ from the corresponding figures in the Gain and loss table on page 51. The Gain and loss table excludes costs relating to self-insured classes, which are fully recoverable.

Benefit payments

Short-term disability (STD) payments were 2.7 percent higher in 2012 than in 2011. Total days paid for STD claims in 2012 was 2.9 million days, at an average daily rate of $103.92. This was a 0.6-percent increase in days paid and a 2.1-percent increase in the wage rate of the average worker receiving compensation. The percentage of injured workers returning to work by 26 weeks was 80 percent in 2012, a slight decrease from 80.7 percent in 2011 (see key objective/performance indicator #2, page 27).

Long-term disability (LTD) payments constitute the largest category of payments WorkSafeBC makes on an annual basis. In 2012, these payments were $65 million higher than the previous year, mostly due to an increase in the number of new pension awards. Survivor benefit payments have been relatively stable but the last two years have seen moderate increases (3.0 percent in 2012 and 4.1 percent in 2011).

In 2012, health care payments increased by 12.4 percent; this was due to the increased costs of health care services and increased use of health care treatment for injured workers. The increase in usage occurred because of initiatives targeting longer-term claims, and implementation of an early intervention strategy established to provide more timely access to appropriate care. Increased referrals to mental health assessment and treatment also contributed to overall increase in usage.

In 2012, for the sixth consecutive year, vocational rehabilitation benefit payments also increased. These expenditures reflect a longer wage-replacement period for workers who received vocational rehabilitation benefits and an increase in referrals into the vocational rehabilitation program, and to a smaller extent, an increase in the average worker's daily rate. Our efforts in this area are paying off as an increasing percentage of workers who receive vocational rehabilitation are successfully

returning to work, despite the province's slow economic growth (see key objective/performance indicator #3, page 29).

Claim administration payments increased by $14 million in 2012. These costs are discussed as part of the overall explanation of the $33-million administration cost increases in the operating costs section.

Changes in actuarial valuations

The largest component of the increase in claim costs in 2012 was the $732-million change in actuarial valuations of benefit liabilities, compared to $265 million in 2011. This $467-million increase accounts for 77 percent of the total increase in claim costs of $604 million. These actuarial valuation changes are based on the recent payment history of various benefit types. WorkSafeBC then uses trend data and price indices to estimate future potential liabilities.

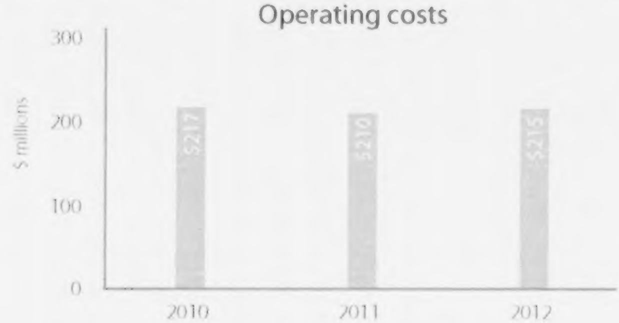
The largest increases in benefit liabilities were for health care and long-term disability. The increases reflect higher payments for both these benefit types, as well as changes in actuarial assumptions used to estimate these liabilities — i) the change in the net discount rate used to calculate the health care benefit liability, and ii) updating the mortality assumption. See the benefit liabilities section (page 58) for a more detailed discussion of the increase in benefit liabilities in 2012.

Changes in actuarial valuation are non-cash in nature because they are not paid out on claims in the current year. They are strictly a reflection of the expected future cost of claims occurring in the current and previous years.

Operating costs

In 2012, operating costs were relatively flat, increasing by just $5 million over 2011. The increase in administration costs of $33 million was offset by an increased allocation for claim administration and decreases in other operating costs.

Operating costs



Operating costs			
($ millions)	2012	2011	Change
Administration costs	422	389	33
Less: Claim administration payments	(243)	(229)	(14)
	179	**160**	**19**
Injury research and reduction initiatives	13	27	(14)
Investment costs	23	23	—
Total	**215**	**210**	**5**

Higher administration costs in 2012 resulted from a variety of causes. In fact, $9 million of the apparent $33-million increase did not result from an increase in year-over-year spending at all, but was due to reversals in 2011 provisions previously established for employee costs that did not materialize.

An additional $10 million was attributed to higher employee pension plan costs due to a decline in the expected return on plan assets (see Note 9 of the consolidated financial statements, page 91). Other cost increases in 2012, totalling $11 million, included: i) an increase in the staff complement to enhance quality control in claim management, address claim backlogs, and manage claims stemming from legislative changes to broaden mental disorder claims coverage; and, ii) a 2-percent negotiated increase in bargaining-unit staff salaries. Increases in fees paid to sessional physicians accounted for $2 million of the higher administration costs, while a further $1 million can be attributed to increased costs for the offices of the Workers' Compensation Appeal Tribunal, Workers' Advisers, and Employers' Advisers.

Claim administration costs relate to the portion of operating costs incurred to adjudicate claims for compensation, manage claims, and process claim payments. These payments are deducted from total operating costs to avoid double counting, because they are already included as a claim cost in the standardized financial statement presentation used by workers' compensation organizations in Canada. The $14 million in increased claim administration payments in 2012 is already included as a component of the $33-million administration cost increase described above.

The reduction in expenses for injury research and reduction initiatives, which decreased by $14 million in 2012, was primarily the result of the postponement in funding for a health care sector injury-reduction initiative.

Balance sheet

The largest and most important components of WorkSafeBC's balance sheet are its portfolio investments and benefit liabilities.

Portfolio investments

The chart below shows the grouping of various types of investments by asset allocation categories. In 2012, the portfolio increased in value by $626 million — from $11.8 billion to $12.5 billion. This increase reflects the $1.1 billion of investment income (discussed earlier) less the amount of withdrawals to fund claim payments and operating costs.

Portfolio investments

In 2012, the investment portfolio continued to be positioned defensively, with WorkSafeBC's Investment Committee maintaining the investment portfolio close to its target weights. The asset allocation targets[18] established under the investment policy are relatively conservative; more than half the assets are allocated to fixed-income and inflation-sensitive investments. The asset mix stayed within the policy ranges throughout 2012. By year-end, the investment portfolio consisted of 31 percent fixed-income, 39 percent equity, and 30 percent inflation-sensitive assets, compared to related investment policy targets of 33, 39, and 28 percent, respectively.

Portfolio investments			
($ millions)	**2012**	**2011**	**Change**
Fixed-income	3,821	3,778	43
Equities	4,861	4,423	438
Inflation-sensitive	3,784	3,639	145
Total	**12,466**	**11,840**	**626**

The majority of WorkSafeBC's investments are held for the long term in securities of solid sustainable organizations and in countries with established or growing economies. WorkSafeBC's management anticipates a continuing but gradual increase in the market values of its investments. Management continues to be concerned about sovereign debt issues in Europe and the growing size of the U.S. deficit. There is also concern that higher levels of inflation and interest rates will return at some point, however that appears less imminent at present and more likely a factor after mid-decade.

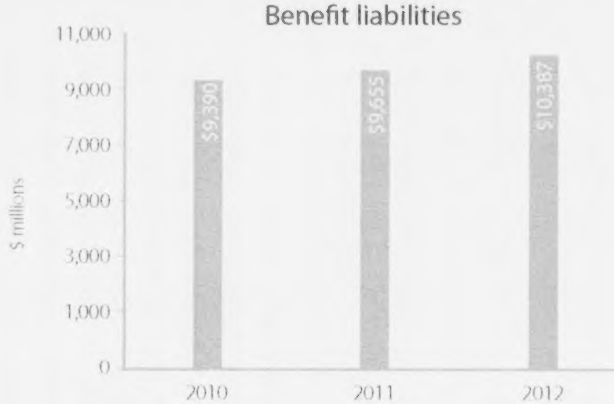
In terms of investment performance, the portfolio's 2012 market return was a gain of 9.5 percent — compared to gains of 4.1 percent in 2011 and 10.4 percent[33] in 2010. This return was more than WorkSafeBC's return requirement[34] for the year, of 4.2 percent. Annual variations in market return should be viewed against longer-term results, shown in the chart below.

Market return vs. required return

Benefit liabilities

In estimating benefit liabilities, the two most important underlying assumptions are the net discount rate and future payment pattern.

Benefit liabilities



Net discount rate — Expected future benefit payments are discounted to arrive at a present value liability amount. A 1.0-percent change in the overall discount rate would change liabilities by approximately $1.2 billion. See Note 10 of the consolidated financial statements, page 99, for further information on net discount rates used in calculating the various components of the benefit liabilities.

Future payment pattern — Benefit liabilities consist of two major categories. Each incorporates an estimate of the future payment pattern:

- Pension awards, capitalized values — This is the present value of monthly annuities (or pensions) already awarded to workers (long-term disability) or survivors of deceased workers. The potential estimation error in this $4.9-billion liability is relatively small, as the awards are known.

- Provision for unfinalled claims — This is the present value of future payments on existing claims yet to be awarded, currently estimated at $5.4 billion. While WorkSafeBC cannot determine the exact measure of ultimate uncertainty in the estimate of unfinalled claim liability, historical data suggests this expected uncertainty could range from plus or minus 20 percent, or about $1.0 billion.

Changes in liability assumptions — There were two major changes in liability assumptions between 2011 and 2012:

- The net discount rate for the health care benefit liability was lowered from 0.5 percent in 2011 to zero percent in 2012, increasing the benefit liability by $159 million.
- The mortality assumptions for long-term disability and survivor benefit monthly pensions was updated in 2012 to reflect increased longevity, increasing long-term disability and survivor benefit liabilities by $134 million and $36 million, respectively.

In 2012, total benefit liabilities increased by $732 million, or about 7.6 percent. From 2001 to 2010, the change in actuarial valuation of this liability trended downward,[40] but that trend appears to have ended as benefit liabilities increased in both 2011 and 2012.

Factors such as short-term disability duration, the success of vocational rehabilitation in returning workers to work, the likelihood of injured workers receiving long-term disability awards or award amounts, increasing costs and use of health care services, and general economic conditions could all influence a change in liability value. As well, judicial or legislative decisions that alter policy or scope of coverage and/or accounting and actuarial standards changes could also affect the valuation of benefit liabilities.

Benefit liabilities

	2012			2011	
($ millions)	Unfinalled claims	Pension awards	Total	Total	Change
Short-term disability	327	—	327	304	23
Long-term disability	1,761	4,121	5,882	5,668	214
Survivor benefits	87	823	910	867	43
Health care	2,327	—	2,327	1,959	368
Vocational rehabilitation	251	—	251	227	24
Claim administration	690	—	690	630	60
Total	**5,443**	**4,944**	**10,387**	**9,655**	**732**

Reserves

WorkSafeBC maintains a number of reserves, as shown in the table below and described in Note 11 of the consolidated financial statements, page 104.

Initiated in 2005,[41] the Capital Adequacy Reserve is the largest reserve — at $962 million (2011: $1,165 million). It is fashioned after the capital adequacy test of the federal Office of the Superintendent of Financial Institutions (OSFI), used in the private insurance sector.

WorkSafeBC sets aside funds in the Capital Adequacy Reserve in economically good years to ensure the Accident Fund is sustainable through more challenging periods. In 2012, to limit 2013 assessment rate increases, $203 million was drawn from the Capital Adequacy Reserve.

The other eight reserves — not including the Capital Adequacy Reserve — are intended to cover specific risks. Most of these risks are unique to workers' compensation, risks not inherently part of a private insurer's risk profile.

Reserves			
($ millions)	2012	2011	Change
Contingent Reserve	3	3	—
Disaster Reserve	16	16	—
Enhancement Reserve	21	21	—
Latent Occupational Disease Reserve	200	200	—
Earthquake Disaster Reserve	20	20	—
Research Reserve	30	30	—
Injury Reduction and Return-To-Work Initiatives Reserve	50	50	—
General Reserve	250	250	—
Capital Adequacy Reserve	962	1,165	(203)
Total	**1,552**	**1,755**	**(203)**

Comparison to plan

Each year, WorkSafeBC prepares pro-forma financial projections as part of its annual business planning process. Performance targets for key objective/performance indicators #8, #9, and #10 (see pages 36, 39, and 41, respectively) are based on these projections. The financial projections are, by design, conservative in nature.

($millions)	2012 actual	2012 plan	Variance
Premium income	1,163	1,166	(3)
Investment income	1,128	374	754
Other income	11	6	5
Total revenues	**2,302**	**1,546**	**756**
Claim costs	2,249	1,810	(439)
Operating costs			
Administration expenses	422	428	6
Less: Claim administration payments	(243)	(239)	4
Injury research and reduction initiatives	13	22	9
Investment expenses	23	27	4
Total expenses	**2,464**	**2,048**	**(416)**
Operating surplus (deficit)	(162)	(502)	340
Other comprehensive income (loss)	(33)	—	(33)
Total comprehensive income (loss)	**(195)**	**(502)**	**307**
Funding level (AWCBC metric)	122%	120%	2 percentage points
Percentage of target funding level achieved	89%	87%	2 percentage points

The organization's total comprehensive loss in 2012 was $195 million, or $307 million better than planned. Management had planned for a loss, setting premiums at a lower rate than required to cover current-year costs (see Gain and loss table in the Overview section, page 51) in order to return surplus to employers per WorkSafeBC's funding policy. However, the loss was lower than planned due to high returns earned on the investment portfolio. The higher-than-planned investment income — a $754-million favourable variance — was partially offset by higher-than-planned claim costs — a $439-million unfavourable variance. The favourable investment income variance was further offset by an unplanned $33-million loss on the actuarial valuation of employee benefit plans [the latter is reflected in the other comprehensive income (loss) category of the table on the previous page].

All categories of claim costs were higher than plan. The largest unfavourable variance was in the area of health care costs. Health care payments were higher than plan, and actuarial liability adjustments were also higher than plan (as discussed in the claim costs section, see page 54). Administration costs and other operating costs were under plan for the year.

In 2012, the funding level of the Accident Fund was 122 percent (assets compared to liabilities), and the percentage of the target asset level achieved was 89 percent (assets compared to the target asset requirement level). Both funding level measures were better than plan due to the lower-than-expected total comprehensive loss in 2012.

Risks

Risk management

WorkSafeBC's strategic framework requires that management review external and internal factors to assess the risks facing the organization, including risks to programs, operations, finances, information, facilities, and staff required by WorkSafeBC to provide ongoing services to British Columbia's workers and employers. Like any organization, WorkSafeBC is susceptible to risks that could lead to significant consequences if unmitigated. As such, management has established internal controls, policies, and processes to assist in containing risks. An internal audit department, reporting regularly to the Audit Committee of the Board of Directors, conducts operational and control audits to test for compliance. The Audit Committee also receives semi-annual reporting on key risk factors, including an assessment of the potential impact of identified risks and the likelihood they will occur, as well as an assessment of the effectiveness of risk management procedures — referred to as the Enterprise Risk Management plan.

The following table shows management's assessment of residual risks in 2012 for 11 risk categories, from low (green) to extreme (red). Residual risk assessment takes into consideration the processes and controls in place to manage the risks.

Key strategic, financial, and operational risk factors are discussed below.

Injury rate

Injury rate risk is considered moderate as our prevention strategy, along with the efforts of the province's workers and employers, is contributing to maintaining a low injury rate. To maintain the low injury rate, we will continue working with our business and labour partners to address occupational health and safety risks, while focusing on emerging issues, and proactive enforcement in targeted sectors, and supporting injury prevention education and awareness. Each 1-percent increase in the number of injuries increases system costs by approximately $12 million and, by extension, the annual premium rate by one percent.

See key performance objective/indicator #1 (page 24) for further discussion of the injury rate.

Claim management

Claim management risk is rated as moderate. The timeliness of short-term disability payments has consistently improved over the last three years and the return-to-work rate for injured workers that were receiving vocational rehabilitation significantly exceeded target. Although the return-to-work rate for workers on short-term disability was slightly less than target, WorkSafeBC's efforts returned workers to work at an 80 percent rate by the 26-week mark.

See key performance objective/indicators #2, #3, and #4 (pages 27, 29, and 30, respectively) for further discussion of WorkSafeBC's claim management and return-to-work programs.

Stakeholder relations

The stakeholder relations risk has been determined to be moderate as customer service and public confidence ratings continue to be favourable. Customer service improvement is a priority. WorkSafeBC obtains feedback through a program of regular surveys and focus groups, allowing us to better understand the needs of our customers and measure the critical human interactions that drive stakeholders' perceptions of our organization. As a result, WorkSafeBC is better able to tailor business decisions to meet the needs of workers and employers and improve service across all areas.

See key performance objective/indicators #5, #6, and #7 (pages 31, 33, and 35, respectively) for further discussion of WorkSafeBC's customer service and public awareness programs.

Business continuity

Business continuity risk is considered moderate because WorkSafeBC has a tested corporate business continuity plan in place to ensure critical services can be maintained or expeditiously restored in the event of a business disruption. Tests have included a facilitated analysis of a simulated emergency situation at one of WorkSafeBC's facilities, involving the emergency response team, communications staff, and senior executives.

Insurance underwriting

WorkSafeBC's insurance underwriting risk is rated moderate due to ongoing efforts undertaken to mitigate risk in this area. These include monitoring the financial health and ongoing viability of rate groups and industry pools, and the actuarial model and assumptions used to price rate group premiums and liabilities. See key objective/performance indictor #9 (page 39) for a discussion of premium rates.

Benefit costs, especially those related to high-cost injuries leading to long-term disability, are susceptible to many variables and thus difficult to predict with certainty. These costs are dependent on efforts to address injury rate and claim management risk, as described above. Inflation is also a major potential cost driver due to the indexing of short-term disability, long-term disability, and survivor benefits against the annual increase in the Canadian consumer price index (CPI). WorkSafeBC's financial projection for 2013–2015 assumes an inflation rate of 2.0 percent per year.

To mitigate uncertainty in future costs, WorkSafeBC has established a Capital Adequacy Reserve, which could be used to offset any sudden liability-related premium increases. WorkSafeBC's capital adequacy policy, as it relates to capital management, is discussed further in the next section.

Capital management

Capital management is the area with the highest residual risk, as assessed in WorkSafeBC's enterprise risk management process. This is because we are managing an investment portfolio valued at more than $12 billion, and some investment risks cannot be directly controlled; this includes significant market swings, geopolitical events, and interest rate changes driven by international monetary, fiscal, and trade policies. It is also worth underscoring that since the financial crisis and recession, financial markets have been volatile.

To mitigate such risks, WorkSafeBC has a prudent investment policy with oversight from a Board-appointed Investment Committee, and a capital adequacy policy to protect against market volatility and uncertainty in estimated liabilities.

WorkSafeBC's capital adequacy policy requires that management set aside sufficient funds to cover the risks inherent in its assets and liabilities, which could change in value based on underwriting and investment risks described above. To be a financially sound insurer, WorkSafeBC aspires to meet risk capital tests similar to those imposed on private insurers by regulatory authorities. In Canada, the Office of the Superintendent of Financial Institutions (OSFI) regulates banks and insurance companies to ensure they have sufficient capital to back their promises and obligations to customers and policyholders. In 2007, WorkSafeBC's Board of Directors approved the adoption of a capital adequacy policy setting out a target asset level using a methodology derived from OSFI guidelines. While WorkSafeBC is not subject to OSFI regulatory oversight, our decision to voluntarily adopt a capital coverage target is in keeping with our strategic objective of a financially sustainable system. WorkSafeBC's target asset level is discussed in key objective/performance indicator #8 (see page 36).

Additional disclosure on WorkSafeBC's investment risk management is provided in Note 4 of the consolidated financial statements, pages 81–87.

Financial management

Financial management risk is rated as moderate. WorkSafeBC's management has a responsibility to maintain cost-effectiveness and accountability in the services we deliver. As such, we have implemented a system of internal controls to ensure appropriate financial policies and procedures are in place, as well as the reliability of financial information and financial reporting.

Claim and administration costs are managed through formal budgeting, monthly reporting, and variance analysis procedures. Our claims management system and Business Information and Analysis department provide management reports and analysis to help WorkSafeBC manage claim costs. Administration costs are compared against other jurisdictions and reported in key objective/performance indicator #10 (see page 41).

Fraud and abuse are risks faced by every organization, particularly those with an insurance function. WorkSafeBC is committed to effective fraud risk management through its fraud prevention strategy.

Legislation and policy

Legislation and policy risk is considered moderate. Every day, WorkSafeBC employees make thousands of decisions regarding compensation, prevention, assessment, and rehabilitation affecting workers and employers. To improve consistency in decision making and ensure compliance with applicable legislation, regulation, and policy, this process is subject to both internal review and external appeal. See key performance objective/indicator #11 (page 42) for further discussion of the programs to improve decision making.

Potential changes to legislation and policy, especially those affecting compensation benefits, can have a significant financial impact and increase WorkSafeBC's underwriting risk. Financial impacts include the potential for increased claim costs, particularly if the change is applied retroactively, and operating costs associated with realigning and training staff. For example, introduction of provincial legislation to expand mental disorder claims coverage in 2012 necessitated that WorkSafeBC hire and train new staff to meet an anticipated increase in the number and complexity of claims.

Human resources

WorkSafeBC's human resources risk is classed as moderate. Our Human Resources division monitors risk factors associated with employee training and development, talent management and succession planning, staff health and safety, and labour relations, ensuring appropriate plans are in place to mitigate risks.

Information infrastructure

Our information infrastructure risk has been rated moderate. WorkSafeBC relies on information technology to successfully fulfill its mandate. Accordingly, the security of personal records, reliability of data, and robustness of information systems are essential to all WorkSafeBC operations. To mitigate the risk of a system failure or breach, the organization has developed and maintains security measures to protect all critical data and systems. WorkSafeBC maintains and regularly tests a technology recovery plan that, if activated, would allow key systems to be restored in order to maintain continuity of essential services.

Strategic

WorkSafeBC's strategic risk is considered moderate. Our Board of Directors is legislatively responsible for setting the organization's priorities and planning for its future. In 2011, the Board approved a new strategic plan to address challenges in the operating environment that WorkSafeBC is likely to face in the coming years.

This strategic plan is outlined in the performance section of this annual report. Progress towards meeting strategic objectives is measured and discussed starting on page 23.

Accounting Standards

The financial statements in this annual report were prepared in accordance with International Financial Reporting Standards (IFRS). Prior to adopting IFRS, WorkSafeBC's financial statements were prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) that were in effect until December 31, 2010 for publicly accountable enterprises.

Accounting standards continue to evolve and some future changes could significantly impact WorkSafeBC's financial reporting. The International Accounting Standards Board (IASB) projects currently underway that WorkSafeBC is closely monitoring include: insurance contracts (IFRS 4 Phase 2) and related anticipated amendments to financial instruments (IFRS 9 Phase 1: classification and measurement); leases (IAS 17); proposed amendments to employee benefits (IAS 19); and financial statement presentation (IAS 1).

Consolidated Financial Statements

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Responsibility for financial reporting

WorkSafeBC's management is responsible for preparing the accompanying consolidated financial statements in accordance with International Financial Reporting Standards. These consolidated financial statements include some amounts based on management's best estimates and judgments.

Management is responsible for the integrity and fairness of the consolidated financial statements and has established systems of internal control to provide reasonable assurance that relevant and reliable financial information is produced and that assets are safeguarded from loss.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and has approved the consolidated financial statements and other financial information included in this annual report.

The Audit Committee assists the Board of Directors in discharging its responsibilities. This committee reviews and recommends approval of the consolidated financial statements and meets periodically with management, internal and external actuaries, and internal and external auditors concerning internal controls and all other matters relating to financial reporting.

WorkSafeBC's actuarial staff performs an annual actuarial valuation of the claim benefit liabilities included in the consolidated financial statements of WorkSafeBC.

Eckler Ltd. has been appointed as the independent peer review actuary to WorkSafeBC. Its role is to complete an independent review of the annual actuarial valuation of the claim benefit liabilities included in WorkSafeBC's consolidated financial statements, and to report thereon in accordance with accepted actuarial practice.

The Internal Audit department performs audits to test the adequacy and consistency of WorkSafeBC's internal controls, practices, and procedures.

WorkSafeBC's external auditor is the Auditor General of British Columbia. The Auditor General has full and unrestricted access to the Audit Committee. The Auditor General has performed an independent audit of WorkSafeBC's consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Auditor General's report outlines the scope of this independent audit and his opinion on the consolidated financial statements of WorkSafeBC.

David Anderson, MBA, FCHRP, C.Dir
President and Chief Executive Officer
WorkSafeBC

Brian Erickson, MBA, CGA
Chief Financial Officer
WorkSafeBC

April 24, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Workers' Compensation Board of British Columbia, and To the Minister of Jobs, Tourism and Skills Training and Minister Responsible for Labour, Province of British Columbia

I have audited the accompanying consolidated financial statements of the Workers' Compensation Board of British Columbia ("the Entity"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in funded position, and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Workers' Compensation Board of British Columbia as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, British Columbia
April 26, 2013

John Doyle, MAcc, FCA
Auditor General

Consolidated statements of financial position
($ Canadian thousands)

Exhibit 1

	Note	December 31, 2012	December 31, 2011
Assets			
Receivables	3	395,765	405,219
Portfolio investments	4	12,465,819	11,839,877
Property and equipment	5	203,510	206,036
Intangible assets	5	86,611	92,607
Employee pension plan benefit asset	9	—	4,270
Total assets		**13,151,705**	**12,548,009**
Liabilities and funded position			
Outstanding payments	6	9,307	13,499
Payables and accruals	7	87,207	66,152
Injured workers' retirement benefit liability	8	21,500	15,285
Employee benefit liabilities	9	297,629	253,965
Claim benefit liabilities	10	10,386,771	9,654,740
Total liabilities		**10,802,414**	**10,003,641**
Total funded position	Exhibit 3	2,349,291	**2,544,368**
		13,151,705	**12,548,009**

The accompanying notes are an integral part of the consolidated financial statements.

Authorized for issue on April 24, 2013 on behalf of WorkSafeBC's Board of Directors:

George L. Morfitt

George Morfitt, FCA
Chair of Board of Directors
WorkSafeBC

Alan Cooke

Alan Cooke, FCIA
Chair of Audit Committee
WorkSafeBC

Consolidated statements of comprehensive income (loss) for the years ended December 31 ($ Canadian thousands) Exhibit 2

	Note	2012	2011
Revenues			
Premiums	12		
Rateable employers		1,130,304	1,103,493
Self-insured employers	13	32,665	41,977
		1,162,969	1,145,470
Investments	4		
Interest income		161	247
Income distributions from pooled funds		466,873	433,648
Income from investment corporations		42,688	36,870
Net realized gains on investments		196,951	62,903
Net unrealized gains (losses) on investments		420,865	(45,889)
		1,127,538	487,779
Other income	14	10,865	9,025
Total revenues		2,301,372	**1,642,274**
Expenses			
Claim costs	10		
Benefit payments		1,516,699	1,379,919
Changes in actuarial valuation of benefit liabilities		732,031	265,371
		2,248,730	1,645,290
Administration costs			
Administration costs	15	422,248	389,088
Less: Claim administration costs		(243,699)	(229,041)
		178,549	160,047
Injury research and reduction initiatives	16	13,153	26,549
Investment costs	4	23,494	23,292
Total expenses		**2,463,926**	**1,855,178**
Surplus (deficit) for the year		**(162,554)**	**(212,904)**
Other comprehensive income (loss)			
Items that will not be subsequently reclassified to revenue or expenses			
Actuarial gains (losses) on employee benefit plans	9	(32,523)	(86,885)
Total comprehensive income (loss)		**(195,077)**	**(299,789)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of changes in funded position for the years ended December 31 ($ Canadian thousands)

Exhibit 3

	Note	2012	2011
Unappropriated balance — January 1		1,046,198	1,155,102
Surplus (deficit) from operations for the year	Exhibit 2	(162,554)	(212,904)
Appropriation from Capital Adequacy Reserve		203,000	104,000
Unappropriated balance — December 31		1,086,644	**1,046,198**
Accumulated other comprehensive income (loss) — January 1		(256,830)	(169,945)
Actuarial gains (losses) of employee benefit plans	9	(32,523)	(86,885)
Accumulated other comprehensive income (loss) — December 31		(289,353)	**(256,830)**
Reserves — January 1	11	1,755,000	1,859,000
Appropriation from Capital Adequacy Reserve to unappropriated balance		(203,000)	(104,000)
Reserves — December 31		**1,552,000**	**1,755,000**
Total funded position		**2,349,291**	**2,544,368**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows for the years ended December 31 ($ Canadian thousands)

Exhibit 4

	Note	2012	2011
Cash obtained from (used for) operating activities:			
Cash received from:			
Employers' premiums		1,164,887	1,109,494
Other		10,865	9,025
		1,175,752	1,118,519
Cash paid to:			
Claimants or third parties on behalf of claimants		(1,272,999)	(1,150,878)
Employees and vendors for goods and services		(411,782)	(544,053)
		(1,684,781)	(1,694,931)
Net cash flow from (used for) operating activities		**(509,029)**	**(576,412)**
Cash obtained from (used for) investing activities:			
Investment income distributions		510,050	471,170
Interest income		161	247
Sale of portfolio investments		2,692,157	4,133,359
Purchase of portfolio investments		(2,670,720)	(4,004,696)
Sale of property, equipment, and intangible assets		160	176
Purchase of property, equipment, and intangible assets		(18,587)	(25,320)
Net cash flow from (used for) investing activities		**513,221**	**574,936**
Net increase (decrease) in cash and cash equivalents		4,192	(1,476)
Cash and cash equivalents — January 1		(13,499)	(12,023)
Cash and cash equivalents — December 31	6	**(9,307)**	**(13,499)**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements for the year ended December 31, 2012

Note 1 — Nature of operations

General Information

WorkSafeBC administers the *Workers Compensation Act* (the Act), enacted by the British Columbia (B.C.) Legislature in 1917. The Act was amended, in 2002 and 2003, by the *Workers Compensation Amendment Act* (Bill 49 and Bill 63), and by the *Skills Development and Labour Statutes Amendment Act* (Bill 37).

WorkSafeBC has its corporate office in Richmond, B.C., Canada, and area offices in various locations throughout the province of British Columbia.

Under the Act, WorkSafeBC's primary functions include: promoting occupational health and safety; compensating for occupational injury, disease, or death; rehabilitating injured workers; collecting the funds necessary for its operations from employers covered under the Act; and managing portfolio investments in compliance with the *Financial Administration Act*.

Premium rates are established at a level to provide for current and future costs of claims and operations arising from current claims, subject to a capping policy to moderate excessive changes in rates from year to year. WorkSafeBC may also levy a special premium when considered appropriate. Any balances in the unappropriated balance and accumulated other comprehensive income (loss) are amortized on a five-year averaging basis through adjustments to future premium rates.

WorkSafeBC does not receive government funding or other assistance. It is required by the Act to maintain an Accident Fund sufficient to meet all present and future costs and liabilities for injuries arising in the current and previous years. The financial strategy of WorkSafeBC is to accumulate adequate capital reserves to mitigate the risks in its assets and liabilities. While International Financial Reporting Standards (IFRS) is the basis of reporting its consolidated financial statements, WorkSafeBC applies a smoothed accounting method for its funding policy (see Financial Context on page 12). This funding policy helps WorkSafeBC avoid premium rate volatility caused by short-term financial market fluctuations.

Note 2 — Significant accounting policies ($ Canadian thousands)

Basis of preparation

WorkSafeBC 's consolidated financial statements have been prepared in accordance with IFRS in effect as at December 31, 2012, which have been adopted by the Canadian Accounting Standards Board as Canadian generally accepted accounting principles for publicly accountable enterprises. WorkSafeBC presents its consolidated statement of financial position in order of liquidity. The principal accounting policies applied in preparing the consolidated financial statements are set out below.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for the carrying value of land, which was measured at deemed cost (fair value at the date of transition to IFRS), and certain financial assets and liabilities, measured at fair value, as explained in the accounting policies below.

Basis of consolidation

WorkSafeBC invests in private placements, foreign real estate, and strategic assets through investment corporations. In each case, WorkSafeBC owns 100 percent of the participating, non-voting shares of the corporation, and British Columbia Investment Management Corporation (bcIMC), WorkSafeBC's investment manager, owns one non-participating voting share of the corporation. The voting share gives bcIMC full authority to manage these investment corporations on WorkSafeBC's behalf. The substance of the relationship between WorkSafeBC and the investment corporations indicates they are controlled by WorkSafeBC, so as to obtain the majority of benefits and risks.

WorkSafeBC's consolidated financial statements include the revenues and expenses of 57 investment corporations (2011: 58). The assets and liabilities of these corporations are presented on a net asset basis within the portfolio investments on the consolidated statement of financial position. This reflects the substance of the investment holdings by WorkSafeBC. Inter-company balances and transactions have been eliminated upon consolidation. The investment corporations had total net fair value of assets of $1,625,594 as at December 31, 2012 (2011: $1,322,014). The consolidation of these investment corporations resulted in an increase to net assets and unappropriated balance of $90,091 as at December 31, 2012 (2011: $12,878).

Use of estimates and measurement uncertainty

In accordance with IFRS, WorkSafeBC's consolidated financial statements include management's judgments, assumptions, and estimates of the reported amounts of assets and liabilities as at the date of the consolidated financial statements and

the reported amounts of revenues and expenses during the reporting periods presented. As a result, some of the reported amounts are subject to measurement uncertainty. Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Assumptions and estimates are reviewed on an ongoing basis, with any related revisions recorded in the period when they are adjusted. Consequently, actual results may differ from management's best estimates by significant amounts. Claim benefit liabilities (see Note 10), accrued premiums (see Note 12), and employee benefit assets, liabilities, and costs (see Note 9) are the most significant items that reflect estimates in these consolidated financial statements.

Specific accounting policies and related critical judgments

To facilitate better understanding of WorkSafeBC's consolidated financial statements, significant accounting policies and the related critical judgments are disclosed in the notes, where applicable, of the accounting topics. A listing of these notes is as follows:

Changes in accounting policy

Amendments to IAS 1 — presentation of items of other comprehensive income

In June 2011, the International Accounting Standard Board (IASB) issued amendments to IAS 1 (*Presentation of Financial Statements*) requiring entities to group items of other comprehensive income into two categories: those items that will not be subsequently reclassified to revenue and expenses, and those that may subsequently be reclassified to revenue and expenses when specific conditions are met. The amendments became mandatorily effective for annual periods beginning on or after July 1, 2012. WorkSafeBC elected to early adopt this amendment effective January 1, 2012.

Future accounting and reporting changes

The IASB is continually working towards the improvement and development of new accounting standards and has issued several exposure drafts of new standards, expected to come into effect over the next several years. WorkSafeBC regularly monitors IASB work plans and publications to assess any potential impact on the organization.

Revisions to standards that could have significant impact on WorkSafeBC include Phase 2 of IFRS 4 (*Insurance Contracts*) combined with limited modifications to IFRS 9 Phase 1 (*Financial Instruments: Classification and Measurement*), and IAS 17 (*Leases*). As at December 31, 2012, these projects were in the exposure draft phase of development; hence the impact of new or amended standards was not determinable.

International financial reporting standards issued but not in effect in 2012

IFRS 10 (*Consolidated Financial Statements*) was issued in May 2011, which superseded and combined IAS 27 (*Consolidated and Separate Financial Statements*) and SIC 13 (*Consolidation — Special Purposes Entities*). The standard is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted. WorkSafeBC has evaluated the potential impact of the change and concluded it is expected to satisfy the elements for control under the new standard and, as such, will continue consolidating the investment corporations and report on the same basis. IFRS 12 (*Disclosure of Interests in Other Entities*), also issued in May 2011, is expected to expand disclosures relating to WorkSafeBC's investments in investment corporations.

IFRS 13 (*Fair Value Measurement*) was issued in May 2011 and is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted. WorkSafeBC has evaluated the potential impact of the standard and concluded there will be no material impact of valuation under the new standard; however, additional disclosures will be required, primarily relating to the sensitivity and interrelationships regarding the valuation of Level 3 inputs for portfolio investments.

IAS 19 (*Employee Benefits*) was amended in June 2011, with amendments effective for fiscal years beginning on or after January 1, 2013 (earlier adoption permitted). The amendments are not expected to have a significant impact on the consolidated financial statements; WorkSafeBC's accounting

Note 2 — continued

policy, as permitted under the current standard, already recognizes actuarial gains and losses immediately within other comprehensive income. The amendments require expanded disclosures relating to the characteristics and risks associated with defined benefit plans.

Note 3 — Receivables ($ Canadian thousands)

Accounting policy

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They primarily arise from premiums, but also incorporate other types of contractual monetary assets. They are carried at cost less any provision for impairment.

Investment transactions pending settlement

Investment transactions pending settlement reflect transactions recorded at trade-date, but not settled at year-end (see Note 4 — Recognition and measurement). These amounts pending settlement are recorded as a receivable and represent outstanding receipts for portfolio investments sold.

Accrued premiums

Employers are required to periodically report their assessable payrolls and remit the premiums owing. The employer reporting and remitting deadline for the period ending December 31 is not until after the year-end, so WorkSafeBC estimates the unremitted portion of premium revenue. The accrual of premiums is calculated using the estimated assessable payroll for the year and applying current-year premium rates. The estimated assessable payroll is determined using the actual reported payroll and projected to December 31, taking into account economic changes in the province.

Self-insured employers

The receivable from self-insured employers represents a provision for expected future costs of current claims for self-insured classes, for which the final settlement has not been determined. The receivable also includes unpaid current billings.

Health and safety associations direct special levies

WorkSafeBC serves as a conduit for collecting and distributing special levies on behalf of employers in specific industries. Levies are applied to these employers through the assessment process, then distributed to health and safety associations which primarily engage in occupational health and safety education and activities for those industries. The asset reflects the timing difference between amounts collected from employers and distributed to the health and safety associations.

Receivables

	December 31, 2012	December 31, 2011
Investment transactions pending settlement	—	10,006
Premiums receivable		
Premiums and accrued premiums (Note 12)	278,034	287,136
Self-insured employers (Note 13)	119,334	117,750
	397,368	404,886
Health and safety associations direct special levies	—	1,470
Other receivables	30,543	26,202
Provision for doubtful accounts	(32,146)	(37,345)
Total	**395,765**	**405,219**

Note 3 — continued

Changes in the provision for doubtful accounts were as follows:

	Premiums receivable	Other receivables	Total
January 1, 2011	**32,000**	**7,643**	**39,643**
Additions	13,900	6,060	19,960
Write-offs	(4,800)	(3,191)	(7,991)
Reductions	(11,800)	(2,467)	(14,267)
December 31, 2011	**29,300**	**8,045**	**37,345**
Additions	4,800	10,021	14,821
Write-offs	(5,700)	(7,083)	(12,783)
Reductions	(4,700)	(2,537)	(7,237)
December 31, 2012	**23,700**	**8,446**	**32,146**

Note 4 — Portfolio investments ($ Canadian thousands)

Accounting policy

WorkSafeBC invests in domestic and foreign, long- and short-duration fixed-income investments, publicly traded equities, private placement investments, currency hedges, and real estate holdings, held directly, through pooled fund products, and investment corporations managed by British Columbia Investment Management Corporation (bcIMC). The inflation-sensitive category includes asset classes with valuations that are affected by the inflation rate over the long term.

Classification

IFRS 9 Phase 1 (*Financial Instruments: Classification and Measurement*) was early adopted effective January 1, 2011 by WorkSafeBC. This standard requires that reporting entities classify financial assets based on the objective of an entity's business model for managing its financial assets and the characteristics of the contractual cash flows. IFRS 9 permits two classifications for financial assets: fair value through profit or loss (FVTPL) and amortized cost.

All WorkSafeBC's portfolio investments, except directly held real return bonds, are mandatorily classified as FVTPL investments. WorkSafeBC has elected to also designate its investments in directly held real return bonds as FVTPL investments, as permitted under IFRS 9 Phase 1. All portfolio investments are reported at fair value. The amounts by which fair value for these investments differ from cost represents unrealized gains or losses and are recognized in investment income on the consolidated statement of comprehensive income. When an investment is sold, the cumulative unrealized gain or loss is reclassified as a realized gain or loss in investment income on the consolidated statement of comprehensive income in the year of disposition. Investment income also includes interest income, income distributions from pooled funds, and income from investment corporations.

Recognition and measurement

WorkSafeBC uses trade-date accounting for the purchase and sale of all financial instruments in its investment portfolio. Transactions are recorded on the date an agreement is entered (the trade date), not on the date the transaction is finalized (the settlement date). If the transaction involves interest, the interest is recorded on the trade date. Where there are investment transactions pending settlement at December 31, this is disclosed as a receivable or payable (see Notes 3 and 7).

WorkSafeBC's portfolio investments are initially recognized at cost, with subsequent adjustment to fair value. The fair value of publicly traded investments and forward foreign exchange contracts is based on quoted prices, while that of domestic real estate, foreign real estate, and private placement investments is based on net fair values of these assets supported by independent appraisals using the most appropriate valuation technique for each type of investment (see below — fair value hierarchy).

Investments denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the consolidated statement of financial position date. Revenues and expenses are translated at the exchange rates in effect on the transaction date. The foreign currency exchange gains or losses for these investments are recorded in the same manner as other investment gains or losses.

Note 4 — continued

Income recognition

For directly held real return bonds, WorkSafeBC applies the effective interest rate method for income recognition.

WorkSafeBC recognizes investment income from pooled funds when the income is distributed from the fund to unit holders. These distributions are reinvested into the pool automatically.

Income from private placement and foreign real estate investment vehicles is recognized through consolidation (see Note 2 — Basis of consolidation). The consolidated financial statements include the investment corporations' income and expenses, with all inter-company transactions eliminated on consolidation.

Fair value adjustments at the reporting date are disclosed as unrealized gains or losses in the consolidated statement of comprehensive income. Realized gains or losses are recognized once the investment or portion thereof has been disposed.

Portfolio investments

	December 31, 2012			
	Investments in pooled funds	Investments held directly	Investments held through investment corporations	Total
Fixed-income investments				
Money market funds	102,680	—	—	102,680
Bond funds	3,182,135	—	—	3,182,135
Mortgage funds	536,313	—	—	536,313
	3,821,128	—	—	3,821,128
Equity investments				
Canadian index equity funds	766,991	—	—	766,991
Active Canadian equity funds	789,372	—	—	789,372
U.S. index equity funds	465,358	—	—	465,358
Active U.S. equity funds	856,016	—	—	856,016
Active international equity funds	831,611	—	—	831,611
Global active equity fund	113,592	—	—	113,592
Emerging markets equity fund	376,050	—	—	376,050
Currency hedging contracts	—	(278)	—	(278)
Private placements	—	—	662,432	662,432
	4,198,990	(278)	662,432	4,861,144
Inflation-sensitive investments				
Real return bonds	—	6,107	—	6,107
Real return bond fund	375,251	—	—	375,251
Strategic equity fund	231,045	—	—	231,045
Strategic private placements	—	—	734,042	734,042
Strategic real estate	—	—	67,805	67,805
Domestic real estate funds	2,207,982	—	—	2,207,982
Foreign real estate	—	—	161,315	161,315
	2,814,278	6,107	963,162	3,783,547
Total	**10,834,396**	**5,829**	**1,625,594**	**12,465,819**

Note 4 — continued

Portfolio investments

	December 31, 2011			
	Investments in pooled funds	Investments held directly	Investments held through investment corporations	Total
Fixed-income investments				
Money market funds	33,354	—	—	33,354
Bond funds	3,196,156	—	—	3,196,156
Mortgage funds	548,088	—	—	548,088
	3,777,598	—	—	3,777,598
Equity investments				
Canadian index equity funds	1,027,535	—	—	1,027,535
Active Canadian equity funds	730,969	—	—	730,969
U.S. index equity funds	186,134	—	—	186,134
Active U.S. equity funds	738,681	—	—	738,681
Active international equity funds	708,504	—	—	708,504
Global active equity fund	96,517	—	—	96,517
Emerging markets equity fund	319,037	—	—	319,037
Currency hedging contracts	—	1,453	—	1,453
Private placements	—	—	614,069	614,069
	3,807,377	1,453	614,069	4,422,899
Inflation-sensitive investments				
Real return bonds	—	6,098	—	6,098
Real return bond fund	676,224	—	—	676,224
Strategic equity fund	276,773	—	—	276,773
Strategic private placements	—	—	530,873	530,873
Strategic real estate	—	—	33,993	33,993
Domestic real estate funds	1,972,340	—	—	1,972,340
Foreign real estate	—	—	143,079	143,079
	2,925,337	6,098	707,945	3,639,380
Total	**10,510,312**	**7,551**	**1,322,014**	**11,839,877**

All portfolio investments above are liquid in nature, except those assets listed in the following table. These illiquid assets cannot be sold or converted easily to cash in a timely and cost-effective manner due to the absence of active markets:

	December 31, 2012	December 31, 2011
Equity investments		
Private placements	662,432	614,069
Inflation-sensitive investments		
Strategic private placements	734,042	530,873
Strategic real estate	67,805	33,993
Domestic real estate funds	2,207,982	1,972,340
Foreign real estate	161,315	143,079
Total	**3,833,576**	**3,294,354**

Note 4 — continued

Investment income

	2012			
	Fixed-income investments	**Equity investments**	**Inflation-sensitive investments**	**Total**
Interest income	—	—	161	161
Income distributions from pooled funds	152,949	136,004	177,920	466,873
Income (loss) from investment corporations				
Strategic and foreign real estate investments	—	914	(151)	763
Private placement investments	—	10,573	31,352	41,925
	—	11,487	31,201	42,688
Realized gains on investments	3,254	15,549	178,148	196,951
Unrealized gains (losses) on investments	(19,137)	385,849	54,153	420,865
Total	**137,066**	**548,889**	**441,583**	**1,127,538**

	2011			
	Fixed-income investments	**Equity investments**	**Inflation-sensitive investments**	**Total**
Interest income	—	—	247	247
Income distributions from pooled funds	185,660	149,846	98,142	433,648
Income from investment corporations				
Strategic and foreign real estate investments	—	575	206	781
Private placement investments	—	15,168	20,921	36,089
	—	15,743	21,127	36,870
Realized gains on investments	18,595	32,648	11,660	62,903
Unrealized gains (losses) on investments	125,858	(463,288)	291,541	(45,889)
Total	**330,113**	**(265,051)**	**422,717**	**487,779**

For consistency in presentation, certain 2011 investment income figures have been reclassified to conform to the 2012 investment income presentation, which better reflects the asset classification. The following reclassifications were made for 2011:

- Real return bonds — $871 reclassified from fixed-income to inflation-sensitive investment income
- Real return bond fund — $107,208 reclassified from fixed-income to inflation-sensitive investment income
- Domestic real estate funds — $252,136 reclassified from equity to inflation-sensitive investment income
- Strategic equity fund — ($27,413) reclassified from equity to inflation-sensitive investment income

Investment expenses

	2012	2011
External investment management fees	22,524	22,298
Internal investment management fees	970	994
Total	**23,494**	**23,292**

Note 4 — continued

Fair value hierarchy

Portfolio investments have been classified into a three-level fair value hierarchy in accordance with IFRS 7 (*Financial Instruments: Disclosures*). The levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities WorkSafeBC has the ability to access. Level 1 inputs offer the most persuasive evidence of fair value and are used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered Level 1-quoted prices. Level 2 inputs consist of: i) quoted prices for similar assets or liabilities in active markets; ii) quoted prices for identical assets or liabilities in non-active markets (e.g., markets that have few transactions and prices are not current or price quotations vary substantially); iii) inputs other than quoted prices that are observable (e.g., interest rates, yield curves, volatilities, credit risks, and default rates); and iv) inputs derived from, or corroborated by, observable market data.
- Level 3 inputs are unobservable inputs. These inputs reflect assumptions about market pricing using the best internal and external information available and supplied to WorkSafeBC by bcIMC. The valuation approaches applied are the most suitable and appropriate for the type of investments.

The fair values of portfolio investments are adjusted to incorporate the counter-party risk of non-performance. In certain situations, WorkSafeBC uses inputs to measure the fair value of asset positions that fall into different levels of the fair value hierarchy. In these situations, WorkSafeBC will determine the level in which the fair value falls based on the lowest level input that is significant to determination of the fair value. The fair values of assets and liabilities measured by level of input were as follows:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
December 31, 2012				
Cash and net receivables/payables	87,695	—	—	87,695
Fixed-income investments	—	4,258,388	340,441	4,598,829
Equity investments	4,112,160	24,116	771,416	4,907,692
Inflation-sensitive investments	233,823	(2,617)	2,640,397	2,871,603
Total portfolio investments at fair value	**4,433,678**	**4,279,887**	**3,752,254**	**12,465,819**
December 31, 2011				
Cash and net receivables/payables	73,568	—	—	73,568
Fixed-income investments	—	4,510,265	277,745	4,788,010
Equity investments	3,707,384	26,216	726,051	4,459,651
Inflation-sensitive investments	277,549	2,558	2,238,541	2,518,648
Total portfolio investments at fair value	**4,058,501**	**4,539,039**	**3,242,337**	**11,839,877**

During 2011 and 2012, there were no significant transfers of investments between Level 1 and Level 2.

For consistency in presentation, 2011 figures have been reclassified to conform to the 2012 presentation, which better reflects the categorization of bonds held through investment corporations.

Portfolio investments measured at a fair value using significant unobservable inputs (Level 3):

	2012	2011
Opening balance as at January 1	3,242,337	2,671,586
Realized and unrealized gains (losses)	384,089	325,386
Purchases	611,890	689,724
Settlements	(483,095)	(523,750)
Effect of change in share of unit holdings	(2,967)	79,391
Closing balance as at December 31	**3,752,254**	**3,242,337**

Note 4 — continued

Unrealized gains of $1,070 million attributable to assets held at December 31, 2012 (2011: $889 million) are included within the gains in the Level 3 equity instruments.

Level 3 investments consist primarily of investments in real estate through pooled funds, with property holdings in office, retail, residential, industrial, hospitality real estate, and other real estate enterprises. The potential impact of possible alternative assumptions on the fair value of the pool is not determinable due to the nature of the independent appraisals for each real estate property and the use of other valuation techniques for real estate enterprises. Fair values are determined using the most appropriate appraisal method for each property and the most appropriate valuation technique for real estate enterprises. The effect of change in the share of unit holdings reflects the impact on WorkSafeBC's proportionate holdings within the pool, resulting from other pool participants either entering or exiting the pool.

Level 3 investments also include private placement, foreign real estate, and strategic real estate investments held through investment corporations. These investment corporations own interests in limited partnerships and other co-ownership arrangements. Fair values are determined by the external managers of these investments using accepted industry valuation methods such as earnings multiples of comparable publicly traded companies, discounted cash flows, and third-party transactions or other events that suggest a significant change in the investment's value. Final values are based on audited financial statements or independent valuations, with any revisions to fair value estimates recorded in the period when they are adjusted.

Portfolio investments — underlying assets

The portfolio investments disclosure above shows the investments in pooled funds by type of fund (i.e., the primary investment focus), while investments held directly are shown by investment type. Many of the pooled funds hold cash, net investment receivables and payables, and/or small amounts of other investments outside their primary investment focus. For the purpose of describing WorkSafeBC's exposure to investment risk, WorkSafeBC's share of the net assets held in pooled funds is shown in the following table by investment type. It is combined with the investments held directly and through investment corporations to show total holdings by investment type.

	December 31, 2012		
	WorkSafeBC's share of net assets of pooled funds	Investments held directly and through investment corporations	Total
Cash and net receivables/payables	79,636	8,059	87,695
Money market investments	130,425	23,486	153,911
Bonds	3,723,177	202,786	3,925,963
Mortgages	518,955	—	518,955
Public equities	4,359,998	—	4,359,998
Derivatives	(2)	(2,615)	(2,617)
Domestic real estate	2,022,207	—	2,022,207
Foreign real estate	—	152,536	152,536
Private placements	—	1,247,171	1,247,171
Total	**10,834,396**	**1,631,423**	**12,465,819**

Note 4 — continued

Portfolio investments — underlying assets

	December 31, 2011		
	WorkSafeBC's share of net assets of pooled funds	**Investments held directly and through investment corporations**	**Total**
Cash and net receivables/payables	71,856	1,712	73,568
Money market investments	248,334	8,583	256,917
Bonds	3,838,502	153,999	3,992,501
Mortgages	538,592	—	538,592
Public equities	4,007,799	—	4,007,799
Derivatives	(4)	2,562	2,558
Domestic real estate	1,805,233	—	1,805,233
Foreign real estate	—	132,727	132,727
Private placements	—	1,029,982	1,029,982
Total	**10,510,312**	**1,329,565**	**11,839,877**

Investment risk management

WorkSafeBC's Board of Directors is responsible for developing policies to ensure adequate funding of the Accident Fund, and for approving investments of funds under Section 82(2)(c) of the *Workers Compensation Act*. To this end, the Board of Directors has developed an investment policy specifying the asset allocation target and limits for investing funds. To assist the Board in discharging these responsibilities, it has appointed an Investment Committee consisting of internal and independent external voting members. This committee manages WorkSafeBC's investment portfolio under the parameters set out by the Board of Directors' statement of investment policies and goals for the Accident Fund.

Under the direction of the Investment Committee, within the parameters established by the Board of Directors, management and investment of the portfolio is carried out by bcIMC.

Credit risk management

Credit risk on financial instruments arises from the possibility of a counter-party to an instrument failing to meet its obligations. Therefore, all issuers of debt instruments — including government, non-government, and other counter-parties — must have a strong credit rating to be eligible for consideration by WorkSafeBC as a direct investment. For indirect investments in pooled funds, WorkSafeBC mitigates credit risk exposure by ensuring the Accident Fund invests in pooled funds with investment policies that provide an adequate minimum credit rating, as determined by bcIMC's internal credit-rating process, and a well-diversified portfolio with limited exposure to any one entity, industry, or country. The credit ratings of WorkSafeBC's fixed-income securities are listed in the following table.

	December 31, 2012							
	Indirect investment			**Direct investment**				
Credit rating	**Real return bonds**	**Government bonds**	**Corporate bonds**	**Real return bonds**	**Government bonds**	**Corporate bonds**	**Total**	**Composition**
AAA/AA	350,287	1,573,415	337,604	6,107	—	727	2,268,140	58%
A	2,709	705,840	368,729	—	597	310	1,078,185	27%
BBB	—	—	273,074	—	—	—	273,074	7%
Unrated	—	—	111,519	—	—	195,045	306,564	8%
Total	**352,996**	**2,279,255**	**1,090,926**	**6,107**	**597**	**196,082**	**3,925,963**	**100%**

Note 4 — continued

Credit risk management

	December 31, 2011							
	Indirect investment			Direct investment				
Credit rating	**Real return bonds**	**Government bonds**	**Corporate bonds**	**Real return bonds**	**Government bonds**	**Corporate bonds**	**Total**	**Composition**
AAA/AA	627,924	1,755,265	240,667	6,098	—	231	2,630,185	66%
A	15,097	401,567	432,795	—	147	125	849,731	21%
BBB	—	—	216,264	—	—	—	216,264	5%
Unrated	—	—	148,923	—	—	147,398	296,321	8%
Total	**643,021**	**2,156,832**	**1,038,649**	**6,098**	**147**	**147,754**	**3,992,501**	**100%**

Foreign exchange risk management

WorkSafeBC holds investments denominated in foreign currencies, which are exposed to currency risk. To mitigate this risk, WorkSafeBC uses currency hedging strategies, where deemed appropriate, by entering into currency hedging forward contracts managed by bcIMC.

The currency exposure (before hedging) of WorkSafeBC's investments is listed in the following table.

	December 31, 2012					
Currency	**Bonds**	**Public equities**	**Foreign real estate**	**Private placements**	**Total**	**Composition**
Canadian dollars	3,847,000	1,772,778	—	190,151	5,809,929	60%
U.S. dollars	67,874	1,471,638	90,006	742,214	2,371,732	25%
Euros	4,319	127,741	47,938	233,486	413,484	4%
British pounds	6,743	91,022	9,219	69,604	176,588	2%
Japanese yen	—	35,554	—	269	35,823	—
Other currencies	27	861,265	5,373	11,447	878,112	9%
Total	**3,925,963**	**4,359,998**	**152,536**	**1,247,171**	**9,685,668**	**100%**

	December 31, 2011					
Currency	**Bonds**	**Public equities**	**Foreign real estate**	**Private placements**	**Total**	**Composition**
Canadian dollars	3,915,126	2,018,809	—	177,381	6,111,316	67%
U.S. dollars	66,890	1,063,866	75,999	647,163	1,853,918	20%
Euros	3,892	98,201	41,514	137,670	281,277	3%
British pounds	6,593	89,370	9,981	56,336	162,280	2%
Japanese yen	—	15,119	—	260	15,379	—
Other currencies	—	722,434	5,233	11,172	738,839	8%
Total	**3,992,501**	**4,007,799**	**132,727**	**1,029,982**	**9,163,009**	**100%**

Note 4 — continued

Inflation risk management

WorkSafeBC is exposed to fluctuations in the inflation rate because its compensation benefits are indexed annually to the increase in the annual Canadian consumer price index (CPI), as measured in October each year, less one percent, up to a maximum annual rate of four percent and minimum of zero. To mitigate the effect of inflation on WorkSafeBC's future liabilities, the Accident Fund holds inflation-sensitive assets including real estate, infrastructure equity investments, and Canadian real return bonds. These bonds are indexed to the annual change in the CPI and have an effective yield of 0.22 percent, excluding the CPI component, at December 31, 2012 (2011: 0.3 percent).

Liquidity risk management

The Accident Fund is exposed to liquidity risk because it must provide funding for WorkSafeBC operations such as benefit payments and administration expenses. WorkSafeBC maintains a portion of its investments in pooled funds consisting of highly liquid short-term money market and fixed-income assets.

Interest rate risk management

Fluctuations in interest rates can affect the fair value of the fixed-income portfolio and shift investor preferences among asset classes. Interest rate risk is minimized by managing the duration of the fixed-income portfolio through direct holdings in bonds, and through investments in fixed-income pooled funds with different terms to maturity. The following table summarizes the remaining term to maturity of WorkSafeBC's outstanding fixed-term investments.

The average yield reflects the yield to maturity, which is the discount rate that makes the present value of future cash flows of each fixed-term investment equal to its fair value. The average yield of these fixed-term investments, excluding real return bonds, at December 31, 2012, is 2.3 percent (2011: 2.4 percent).

	December 31, 2012				
	Remaining term to maturity				
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Government bonds	15,859	888,509	765,982	609,502	2,279,852
Corporate bonds	40,519	404,698	551,342	281,449	1,278,008
Real return bonds	—	—	45,957	313,146	359,103
Fixed-term mortgages	92,785	348,390	77,780	—	518,955
Total fair value	**149,163**	**1,641,597**	**1,441,061**	**1,204,097**	**4,435,918**

	December 31, 2011				
	Remaining term to maturity				
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Government bonds	4,535	1,142,888	380,481	629,075	2,156,979
Corporate bonds	6,937	254,172	622,330	302,964	1,186,403
Real return bonds	—	—	101,618	547,501	649,119
Fixed-term mortgages	62,286	339,844	136,462	—	538,592
Total fair value	**73,758**	**1,736,904**	**1,240,891**	**1,479,540**	**4,531,093**

Note 4 — continued

Real estate risk management

Risk in the real estate portfolio is managed by investing across real estate types and locations. Adverse effects in any one segment of the market or geographic location are minimized through diversification, including investments in domestic and foreign real estate. The sector and geographic breakdowns of WorkSafeBC's domestic real estate investments were as follows:

	December 31, 2012		December 31, 2011	
Sector	**Total**	**Composition**	**Total**	**Composition**
Office	1,286,864	49%	1,086,410	48%
Residential	623,960	24%	524,732	23%
Industrial	323,767	12%	294,816	13%
Retail	227,723	9%	219,121	10%
Hospitality	146,988	6%	141,146	6%
Net operating assets and liabilities of the fund	(401,320)	—	(293,885)	—
Total	**2,207,982**	**100%**	**1,972,340**	**100%**

	December 31, 2012		December 31, 2011	
Domestic real estate	**Total**	**Composition**	**Total**	**Composition**
Ontario	971,957	37%	871,543	39%
Alberta	948,922	37%	792,729	35%
B.C.	460,193	18%	391,656	17%
Quebec	122,135	5%	114,344	5%
Manitoba	37,618	1%	33,010	2%
Saskatchewan	27,250	1%	30,058	1%
Nova Scotia	29,971	1%	26,357	1%
New Brunswick	6,947	—	4,952	—
Newfoundland and Labrador	2,867	—	379	—
P.E.I.	1,442	—	1,197	—
Net operating assets and liabilities of the fund	(401,320)	—	(293,885)	—
Total	**2,207,982**	**100%**	**1,972,340**	**100%**

Note 4 — continued

Industry and geographic risk management

To capture investment opportunities on a worldwide basis, global public equity investments are monitored and reviewed on a quarterly basis. This helps ensure appropriate diversification is achieved.

The industry and geographic breakdowns of WorkSafeBC's public equities were as follows:

	December 31, 2012				
Industry	**Canada**	**U.S.**	**Non-North America**	**Total**	**Composition**
Financial services	532,038	165,380	389,079	1,086,497	25%
Energy	471,569	123,657	103,909	699,135	16%
Materials	329,573	60,047	110,437	500,057	11%
Information technology	35,556	285,422	164,532	485,510	11%
Consumer discretionary	80,998	185,160	125,111	391,269	9%
Industrial	131,970	127,730	112,240	371,940	8%
Consumer staple	41,208	124,310	130,616	296,134	7%
Health care	34,323	177,606	60,080	272,009	6%
Telecommunication services	74,049	19,624	59,511	153,184	4%
Utilities	37,277	20,607	15,746	73,630	2%
Other	144	610	29,879	30,633	1%
Total	**1,768,705**	**1,290,153**	**1,301,140**	**4,359,998**	**100%**

	December 31, 2011				
Industry	**Canada**	**U.S.**	**Non-North America**	**Total**	**Composition**
Financial services	515,629	84,431	267,825	867,885	22%
Energy	593,040	89,787	100,233	783,060	19%
Materials	416,452	33,987	89,705	540,144	13%
Information technology	32,894	222,538	128,529	383,961	10%
Industrial	164,157	81,258	92,987	338,402	8%
Consumer discretionary	79,640	138,865	92,987	311,492	8%
Consumer staple	57,023	89,379	132,941	279,343	7%
Health care	28,334	124,654	46,407	199,395	5%
Telecommunication services	91,186	18,194	82,763	192,143	5%
Utilities	29,958	12,915	40,118	82,991	2%
Other	8,602	—	20,381	28,983	1%
Total	**2,016,915**	**896,008**	**1,094,876**	**4,007,799**	**100%**

Note 4 — continued

Market risk

Market risk is the risk of loss in the value of portfolio investments that may arise due to changes in market factors such as public equity prices, interest rates, foreign exchange rates, and real estate and private placement valuations. These changes are subject to economic factors and other movements in global capital markets. As previously disclosed, market risk is managed by bcIMC and the Investment Committee, and through risk monitoring and portfolio diversification. WorkSafeBC is exposed to varying levels of market risk depending on the type of investment and conditions within various global markets.

The following tables provide estimates of the potential dollar impact on the fair value of investments, when there are material changes in key risk variables such as equity market indices, interest rates, currency exchange rates, and real estate and private placement valuations. Each table shows the potential impact under normal market conditions within the 12-month period following the balance sheet date. The lower of the two risk scenarios represents the more likely consequence for the specific asset class if market forces move in an adverse direction. The higher risk scenario is less likely to occur. It should be noted that each table shows the impact of the specific downside risk, independent of the correlation to other market variables, and that these estimates do not address worst-case scenarios or potential losses arising from even more extreme market conditions and events.

Price risk

The following table presents the estimated effect of a material adverse change in the equity index benchmark for each geographic category of the public equity investments. Standard deviations are based on historical values for the past five years of market benchmark indices ending on December 31, 2012.

	One standard deviation	Two standard deviations
Percentage decrease in Canadian equity market benchmark	16.9%	33.9%
Estimated loss in fair value — Canadian equity pooled funds	$305,000	$605,000
Percentage decrease in global equity market benchmark	13.4%	26.7%
Estimated loss in fair value — global equity pooled funds (including U.S., global, and international)	$305,000	$605,000
Percentage decrease in emerging markets equity market benchmark	20.6%	41.2%
Estimated loss in fair value — emerging markets equity pooled funds	$75,000	$155,000

Interest rate risk

The following table presents the estimated effect of a material adverse change in the nominal and real interest rates on bond and mortgage investments.

	Scenario 1	Scenario 2
Basis points increase in nominal interest rate	75bp	150bp
Estimated loss in fair value — bond-pooled funds	$170,000	$345,000
Basis points increase in nominal interest rate	75bp	150bp
Estimated loss in fair value — mortgage-pooled funds	$5,000	$15,000
Basis points increase in real interest rate	75bp	150bp
Estimated loss in fair value — real return bonds	$45,000	$95,000

Note 4 — continued

Currency risk

The following table presents the estimated effect of a material adverse change in the Canadian dollar/U.S. dollar and Canadian dollar/Euro exchange rates on foreign currency-based investments in public equities, real estate, private placements, and bonds. For the purpose of this analysis, the base exchange rates are the exchange rates at December 31, 2012.

	Scenario 1	Scenario 2
Appreciation in the Canadian dollar (vs. U.S. dollar)	10%	20%
Estimated loss in fair value — public equities, real estate, private placements, and bonds	$215,000	$395,000
Appreciation in the Canadian dollar (vs. Euro)	10%	20%
Estimated loss in fair value — public equities, real estate, private placements, and bonds	$40,000	$70,000

Valuation risk

The following table presents the estimated effect of a material adverse change in the valuations of investments in domestic real estate, foreign real estate, and private placements.

	Scenario 1	Scenario 2
Decline in value of assets	10%	20%
Estimated loss in fair value — domestic real estate	$220,000	$440,000
Estimated loss in fair value — foreign and strategic real estate	$25,000	$45,000
Estimated loss in fair value — private placements	$140,000	$280,000

Encumbrances

As at December 31, 2012, real return bonds valued at $6.1 million (2011: $6.1 million), on a fair value basis, were pledged as collateral for the issuance of a letter of credit to guarantee U.S. $2.1 million of credit facilities for Transelec S.A., the largest electricity transmission company in Chile. It is expected this pledge will be required as long as the credit facilities are required by Transelec S.A.

Note 5 — Property, equipment, and intangible assets ($ Canadian thousands)

Accounting policies

Recognition and measurement

Property, equipment, and intangible assets are reported at historical cost less accumulated depreciation/amortization and any amount for impairment, except for land. Land is reported at deemed cost — the fair value as at the date of transition to IFRS (January 1, 2010), as elected under IFRS 1, with any subsequent land acquisitions measured at historical cost.

Operating systems represent the direct costs incurred in developing new internally generated systems. Costs are deferred and amortized on a straight-line basis on the date the asset is ready to use. Project costs incurred in the definition stage for feasibility studies are recognized in the consolidated statement of comprehensive income as incurred.

Additions and subsequent expenditures are capitalized only to the extent they enhance future economic benefits expected to be derived from the asset — either a significant extension of the asset's expected useful life, or major enhancements to the asset's functions.

Expenditures incurred to replace a component of an asset are separately capitalized and the replaced component is derecognized. All other expenditures, including maintenance, costs of minor enhancements, and costs of minor extension of an asset's useful life, are recognized in the consolidated statement of comprehensive income as incurred.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of a leased item, are capitalized as assets at the inception of the lease, at the present value of the minimum lease payments. The carrying value of leased office equipment held under these finance leases at December 31, 2012 was $4,244 (2011: $4,474).

Measurement of land

WorkSafeBC elected to use fair value at the date of transition to IFRS (January 1, 2010) as the deemed cost for land — a one-time election available under IFRS 1 (*First-time Adoption of IFRS*). The fair value of land at the date of transition was $145,873 and the adjustment to the carrying amount of land was $142,113, recognized directly in unappropriated balance.

Note 5 — continued

The fair value was determined by an independent property appraisal company, with appropriate recognized professional qualifications and recent experience in the location and type of property being appraised. Acquisitions of land, subsequent to January 1, 2010, will be measured at historical cost.

Depreciation and amortization

Depreciation and amortization is charged to the consolidated statement of comprehensive income beginning on the date the asset is ready for use, on a straight-line basis, over the estimated useful life of the asset or the major component of an asset. Useful lives and any residual values of assets are reviewed annually to take into account any change in circumstances, including technological obsolescence, redundancy due to change in business strategy or economic conditions, and physical deterioration or loss. Land is not depreciated as it is deemed to have an indefinite life.

The range of estimated useful lives of assets is as follows:

Property and equipment:
- Buildings .... 10 to 40 years
- Equipment .... 2 to 7 years
- Furniture .... 10 years
- Vehicles .... 7 years

Intangible assets:
- Operating systems .... 5 to 10 years
- Computer software .... 3 years

Impairment

Property, equipment, and intangible assets are assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets are subject to an impairment review. If an asset is impaired, an impairment loss is recognized in the consolidated statement of comprehensive income.

IAS 36 (*Impairment of Assets*) requires an entity to test assets for impairment when indicators of impairment exist. The impairment review must be conducted for an individual asset, an asset group, or the cash-generating unit level, the smallest identifiable group of assets that generates cash inflows independent of cash inflows from other assets or groups of assets.

Based on an analysis of cash flows, WorkSafeBC has established that the appropriate cash-generating unit for impairment review is the entity. As WorkSafeBC has statutory power under the *Workers Compensation Act* to increase premiums and/or impose levies to ensure full funding into the foreseeable future, impairment at the entity level is remote. On an annual basis, WorkSafeBC conducts a review to ensure no events or changes in circumstance have occurred that would provide evidence of impairment.

As at December 31, 2012, management conducted an impairment indicator review at the entity level; it confirmed no significant impairment indicators — changes in the legislative, economic, or business environment — that would have a material impact on WorkSafeBC's ability to generate future economic benefits from its operating (non-financial) assets.

Property and equipment

	Land	Buildings	Furniture and equipment	Vehicles	Total
Cost	145,873	104,811	34,431	11,959	297,074
Less: Accumulated depreciation	—	60,106	22,572	6,308	88,986
Balance at December 31, 2010	**145,873**	**44,705**	**11,859**	**5,651**	**208,088**
Changes during the year:					
Cost					
Additions	—	3,520	5,946	426	9,892
Disposals	—	—	(6,256)	(1,002)	(7,258)
Less: Accumulated depreciation					
Depreciation	—	4,286	5,971	1,577	11,834
Disposals	—	—	(6,227)	(921)	(7,148)
Balance at December 31, 2011	**145,873**	**43,939**	**11,805**	**4,419**	**206,036**
Representing:					
Cost	145,873	108,331	34,121	11,383	299,708
Less: Accumulated depreciation	—	64,392	22,316	6,964	93,672
Balance at December 31, 2011	**145,873**	**43,939**	**11,805**	**4,419**	**206,036**

Note 5 — continued

Property and equipment — continued

	Land	Buildings	Furniture and equipment	Vehicles	Total
Changes during the year:					
Cost					
Additions	—	2,276	6,519	420	9,215
Disposals	—	(3,792)	(3,623)	(859)	(8,274)
Less: Accumulated depreciation					
Depreciation	—	4,594	5,577	1,510	11,681
Disposals	—	(3,792)	(3,623)	(799)	(8,214)
Balance at December 31, 2012	**145,873**	**41,621**	**12,747**	**3,269**	**203,510**
Representing:					
Cost	145,873	106,815	37,017	10,944	300,649
Less: Accumulated depreciation	—	65,194	24,270	7,675	97,139
Balance at December 31, 2012	**145,873**	**41,621**	**12,747**	**3,269**	**203,510**

Deferred costs of $941 are included in the buildings and $502 in furniture and equipment (2011: $2,189 and $354 respectively). Depreciation of these assets will begin when they are ready to use.

Intangible assets

	Computer software	Operating systems	Total
Cost	13,988	200,715	214,703
Less: Accumulated amortization	12,924	109,395	122,319
Balance at December 31, 2010	**1,064**	**91,320**	**92,384**
Changes during the year:			
Cost			
Additions	4,686	10,741	15,427
Disposals	(408)	(1,329)	(1,737)
Less: Accumulated amortization			
Amortization	994	14,210	15,204
Disposals	(408)	(1,329)	(1,737)
Balance at December 31, 2011	**4,756**	**87,851**	**92,607**
Representing:			
Cost	18,266	210,127	228,393
Less: Accumulated amortization	13,510	122,276	135,786
Balance at December 31, 2011	**4,756**	**87,851**	**92,607**
Changes during the year:			
Cost			
Additions	358	9,014	9,372
Disposals	(139)	(1,524)	(1,663)
Less: Accumulated amortization			
Amortization	848	14,520	15,368
Disposals	(139)	(1,524)	(1,663)
Balance at December 31, 2012	**4,266**	**82,345**	**86,611**
Representing:			
Cost	18,485	217,617	236,102
Less: Accumulated amortization	14,219	135,272	149,491
Balance at December 31, 2012	**4,266**	**82,345**	**86,611**

Note 5 — continued

Included in the operating systems are deferred costs of $9,093 (2011: operating systems — $2,369, computer software — $1,484). Amortization of these assets will begin when they are ready to use.

Note 6 — Outstanding payments ($ Canadian thousands)

Outstanding payments represent the value of cheques issued but not cashed.

Outstanding payments

	December 31, 2012	December 31, 2011
Outstanding cheques	9,307	13,499

Note 7 — Payables and accruals ($ Canadian thousands)

Accounting policy

Payables and accruals are financial liabilities which represent obligations to pay for goods or services received by WorkSafeBC in the ordinary course of operations. WorkSafeBC recognizes a liability and an expense for goods upon receipt or transfer of control, and for services when they have been performed. Other payables include credit balances on employer accounts. The timing and amount of payables and accruals are readily determinable. These amounts are normally settled before the end of the next reporting period, except for the two- to five-year finance lease obligations as shown in the table below.

Investment transactions pending settlement

Investment transactions pending settlement reflect transactions recorded at trade-date but not settled at year-end (see Note 4 — Recognition and measurement). These amounts pending settlement are recorded as a payable and represent outstanding payments for portfolio investments purchased.

Finance lease obligations

WorkSafeBC's leases of personal computers and printers are classified as finance leases. The determination of whether an arrangement is a finance lease, which transfers substantially all the risks and benefits incidental to ownership of the leased item, is based upon the substance of the arrangement at the inception of the lease. The lease obligation and asset are recognized at the lease's inception and measured at the present value of the minimum lease payments, applying the interest rate implicit in the lease. Monthly payments are apportioned between finance charges (charged to operating surplus or deficit) and the reduction of lease liability, so as to achieve a constant rate of interest on the liability's remaining balance.

Payables and accruals

	December 31, 2012	December 31, 2011
Investment transactions pending settlement	19,558	—
Accrued staff salaries	37,513	30,580
Vendor payables	19,150	22,763
Finance lease obligations	4,363	4,609
Other payables	6,623	8,200
	87,207	**66,152**

The terms of the finance leases are two and three years for personal computers and five years for printers, with the interest rate implicit in the leases averaging 5.0 percent as at December 31, 2012 (2011: 5.3 percent).

Note 7 — continued

Scheduled finance lease payments are as follows:

	December 31, 2012			December 31, 2011		
	Minimum lease payments	Finance charges	Present value	Minimum lease payments	Finance charges	Present value
0–1 year	2,693	72	2,621	2,420	68	2,352
2–5 years	1,919	177	1,742	2,490	233	2,257
	4,612	**249**	**4,363**	**4,910**	**301**	**4,609**

Note 8 — Injured workers' retirement benefit liability ($ Canadian thousands)

Accounting policy

The injured workers' retirement benefit obligation is a financial liability which represents obligations under Section 23.2 of the *Workers Compensation Act*, effective for all injuries occurring June 30, 2002 and thereafter. This section requires that WorkSafeBC provide a monthly amount for permanently disabled workers, equal to five percent of a worker's permanent disability monthly benefit payment. This amount is over and above the benefit payment issued monthly and separate from the long-term disability benefit liability (see Note 10). In addition, a worker may voluntarily choose to contribute between one and five percent of his or her monthly benefit.

WorkSafeBC recognizes a liability for these amounts when the worker's permanent disability monthly benefit is paid. The injured workers' retirement benefit liability provides for interest at the greater of WorkSafeBC's annual smoothed accounting rate of return or the Government of Canada 90-day Treasury bill rate. Future cash flows to be paid to a worker are discounted equal to the rate of interest. Upon the earlier of death or reaching age 65, workers (or their beneficiary in the case of death) receive a lump-sum payout of these amounts and the liability is derecognized.

Injured workers' retirement benefit liability

Changes in the injured workers' retirement benefit liability were as follows:

	2012	2011
Balance January 1	15,285	10,768
Interest income	489	647
Contributions by WorkSafeBC	5,775	3,998
Contributions by injured workers	787	564
Benefits paid	(836)	(692)
Balance December 31	**21,500**	**15,285**

Note 9 — Employee benefit assets, liabilities, and costs ($ Canadian thousands)

Accounting policies

Post-employment benefits

WorkSafeBC has employee benefit plans that provide pension benefits (vesting after two years of service) and post-employment health care benefits for its employees. The cost of the plans and the present value of the obligations are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of returns on assets, future salary increases, mortality rates, and future pension changes. Due to the complexity of the valuations, the underlying assumptions, and the long-term nature, the obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of key assumptions used in the estimates are disclosed below.

Note 9 — continued

WorkSafeBC and its employees contribute to the Workers' Compensation Board (WCB) Superannuation Plan, a registered defined benefit plan. The plan provides pensions based on length of service and the best five-year average earnings of the employee. The pensions vest after two years of contributory service. For funding purposes, and to determine employee and employer contribution rates, the plan requires an actuarial valuation of the plan's liabilities at intervals of not more than three years. The last valuation was carried out as at March 31, 2012. Pension plan assets are recognized at fair value and the expected return is also based on the fair value of its assets. The March 31, 2012 funding valuation results were used to derive the projected liabilities at year-end.

The WCB Superannuation Plan is subject to the *Pension Benefit Standards Act* of British Columbia and, as such, requires certain certifications regarding the plan's solvency. The last actuarial valuation, as at March 31, 2012, required minimum solvency amortization payments of $13.9 million per year for five years from March 31, 2012. Pursuant to Section 35.1 of the B.C. *Pension Benefits Standard Regulation*, WorkSafeBC used a letter of credit to secure the solvency amortization payments that would have been otherwise payable in the period April 1, 2012 to December 31, 2013. The $25-million letter of credit was issued on January 25, 2013 and expires on January 31, 2014. On January 31, 2011, a lump-sum contribution of $139 million was made to the plan following the previous actuarial valuation (March 31, 2009), satisfying the required solvency amortization payments.

WorkSafeBC also has a supplementary executive retirement plan (SERP), established effective January 1, 2009, to provide additional pension benefits to designated executives. Pension benefits in the supplementary executive plan, which is not funded, are based on the same earnings as the WCB Superannuation Plan. For financial reporting purposes, an actuarial valuation for the SERP was carried out as of December 31, 2012. The SERP amounts are included in the detailed disclosures for the employee pension plan in tables within this note. The present value of defined benefit obligation for the SERP at December 31, 2012 was $1,411 (2011: $796).

Additionally, WorkSafeBC has a financial obligation relating to the basic medical and extended health care benefits it provides eligible WorkSafeBC retirees; WorkSafeBC employees are not required to contribute toward these health care benefits.

The cost of the pension and post-employment health care benefits earned by employees is actuarially determined using the projected benefit method prorated on service and actuarial assumptions about discount rates, expected returns on assets, future salary increases, retirement ages of employees, mortality rates, and expected health care costs. Due to the long-term nature of the plans, such estimates are subject to significant uncertainty.

All actuarial gains and losses are recognized as they occur through other comprehensive income.

The significant actuarial assumptions adopted in valuing WorkSafeBC's benefit plan expenses are shown in the following table:

	Employee pension plan		Post-employment health care plans	
	2012	2011	2012	2011
Discount rate	3.80%	4.30%	3.80%	4.30%
Expected return on plan assets	3.80%	4.30%	—	—
Future salary increases/health care cost increases	1.00%	1.30%	3.00%	3.30%

The rates shown in the 2012 column were effective as of December 31, 2012. The rates were applied in determining the benefit plan balances at December 31, 2012. Rates shown in the 2011 column were effective from December 31, 2011 to December 30, 2012. The 2011 rates were applied in determining 2012 benefit plan expenses.

Long-term disability benefits

Long-term disability benefits are provisions that represent the present obligation for the amount of income to be provided to employees who are unable to work for a long time due to non-work-related illness or injury. WorkSafeBC recognizes the provision when the disability occurs. Each reporting period, the

present value of the obligation is calculated using a discount rate equal to the CPI plus 3 percent. The discount rate used for 2012 was 4.2 percent (2011: 5.9 percent).

Long-service benefits

Long-service benefits are liabilities that represent the amount payable to employees who have completed at least 10 years of service with WorkSafeBC. WorkSafeBC recognizes the liability as the employees render the service, which accumulates towards the entitlement of the long-service benefits. The benefit vests after 10 years of service, with payment made upon termination, death, or retirement. WorkSafeBC has recognized the expected benefit liability applying a 3.0 percent discount rate (2011: 3.5 percent) equal to the yield on high-quality corporate bonds with the same estimated term as the liability.

Other benefits

Other benefits include liabilities for WorkSafeBC claims from WorkSafeBC employees and accumulated sick leave.

WorkSafeBC claims are liabilities representing the present obligation for expected employee claim costs. WorkSafeBC recognizes the provision when the claim is accepted. Each reporting period, the present value of the obligation is calculated using a net discount rate (with respect to CPI inflation) of 3.0 percent for 2012 (2011: 3.0 percent).

Accumulated sick leave represents future payments expected to exceed the annual current entitlement that can be used by employees in future periods. Accumulated sick leave does not vest. WorkSafeBC recognizes the sick leave benefit obligation as the employees render the service which accumulates entitlement.

Employee benefit liabilities

WorkSafeBC has several employee benefit plans, including pension benefits, post-employment health care benefits, long-term disability benefits, long-service benefits, and other benefits liabilities, comprised of the following:

	December 31, 2012	December 31, 2011
Employee pension plan	33,982	—
Post-employment health care benefit plans	158,573	147,917
Accrued long-term disability	65,500	68,000
Accrued long-service benefits	32,543	31,281
Accrued other benefits	7,031	6,767
	297,629	**253,965**

Employee benefit plans — assets, liabilities, and expenses

The amounts recognized in the consolidated statement of financial position are determined as follows:

	Employee pension plan	
	December 31, 2012	December 31, 2011
Present value of defined benefit obligation	(1,401,872)	(1,241,344)
Fair value of plan assets	1,367,890	1,245,614
Funded status — plan surplus (deficit)	**(33,982)**	**4,270**
Benefit asset (liability)	**(33,982)**	**4,270**

	Post-employment health care plans	
	December 31, 2012	December 31, 2011
Present value of defined benefit obligation	(158,573)	(147,917)
Fair value of plan assets	—	—
Funded status — plan surplus (deficit)	**(158,573)**	**(147,917)**
Benefit asset (liability)	**(158,573)**	**(147,917)**

Note 9 — continued

Changes in the defined benefit obligation were as follows:

	Employee pension plan		Post-employment health care plans	
	2012	2011	2012	2011
Balance January 1	1,241,344	1,069,322	147,917	141,911
Current service cost	30,151	26,251	6,021	5,651
Employer contribution receivable	(160)	(156)	—	—
Interest cost	52,969	55,721	6,301	7,381
Contributions by plan participants	15,393	14,209	—	—
Net transfers in from other plans	1,386	2,120	—	—
Actuarial losses (gains)	98,739	108,338	1,088	(4,368)
Benefits paid	(37,950)	(34,461)	(2,754)	(2,658)
Balance December 31	**1,401,872**	**1,241,344**	**158,573**	**147,917**

Changes in the fair value of plan assets were as follows:

	Employee pension plan		Post-employment health care plans	
	2012	2011	2012	2011
Balance January 1	1,245,614	1,025,790	—	—
Expected return on plan assets	52,897	61,259	—	—
Actual return over expected return on plan assets	67,304	17,085	—	—
Employer contributions	25,052	161,526	2,754	2,658
Employer contribution receivable	(1,806)	(1,914)	—	—
Employee contributions	15,393	14,209	—	—
Benefits paid	(37,950)	(34,461)	(2,754)	(2,658)
Net transfers in from other plans	1,386	2,120	—	—
Balance December 31	**1,367,890**	**1,245,614**	—	—

The amounts recognized in the consolidated statement of comprehensive income are as follows:

	Employee pension plan		Post-employment health care plans		Total	
	2012	2011	2012	2011	2012	2011
Recognized in administration expenses:						
Employer current service cost	30,151	26,251	6,021	5,651	36,172	31,902
Interest cost	52,969	55,721	6,301	7,381	59,270	63,102
Expected loss (return) on plan assets	(52,897)	(61,259)	—	—	(52,897)	(61,259)
	30,223	**20,713**	**12,322**	**13,032**	**42,545**	**33,745**
Recognized in other comprehensive income:						
Actuarial losses (gains) on plan liabilities	98,739	108,338	1,088	(4,368)	99,827	103,970
Actuarial losses (gains) on plan assets	(67,304)	(17,085)	—	—	(67,304)	(17,085)
	31,435	**91,253**	**1,088**	**(4,368)**	**32,523**	**86,885**
Total benefit plan expenses	**61,658**	**111,966**	**13,410**	**8,664**	**75,068**	**120,630**

Note 9 — continued

Cumulative actuarial gains (losses) recognized in other comprehensive income:

	Employee pension plan		Post-employment health care plans		Total	
	2012	2011	2012	2011	2012	2011
As at January 1	(240,131)	(148,878)	(16,699)	(21,067)	(256,830)	(169,945)
Actuarial gains (losses) on plan liabilities for the year	(98,739)	(108,338)	(1,088)	4,368	(99,827)	(103,970)
Actuarial gains (losses) on plan assets for the year	67,304	17,085	—	—	67,304	17,085
As at December 31	**(271,566)**	**(240,131)**	**(17,787)**	**(16,699)**	**(289,353)**	**(256,830)**

Sensitivity of post-employment health care benefit plan expenses

Assumed health care cost trends have a significant effect on the amounts recognized in the consolidated statement of comprehensive income. The effect of a 1-percent movement in the assumed health care cost trend rate is as follows:

	2012		2011	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate current service cost and interest cost	3,018	(2,332)	3,001	(2,370)
Effect on the defined benefit obligation	31,389	(25,908)	27,746	(23,073)

Employee pension plan assets

The major categories of employee pension plan assets are as follows:

	December 31, 2012		December 31, 2011	
	Fair value	Composition	Fair value	Composition
Fixed-income investments	403,809	29%	396,615	32%
Equity investments	614,142	45%	527,436	42%
Inflation-sensitive investments	349,939	26%	321,563	26%
	1,367,890	**100%**	**1,245,614**	**100%**

The overall expected rate of return on assets — 3.8 percent for 2012 (2011: 4.3 percent) — has been set to equal the discount rate, which is based on market yields of high-quality corporate bonds at year-end. The actual rate of return on plan assets was 9.6 percent for 2012 (2011: 6.7 percent).

Note 9 — continued

Historical information of employee post-employment benefit plans

WorkSafeBC has elected to use the exemption available under IFRS 1 (*First-time Adoption of IFRS*), presenting comparative information only since the transition to IFRS rather than information for five years (in accordance with IAS 19) as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Employee pension plan:			
Present value of defined benefit obligation	(1,401,872)	(1,241,344)	(1,069,322)
Fair value of plan assets	1,367,890	1,245,614	1,025,790
Surplus (deficit)	**(33,982)**	**4,270**	**(43,532)**
Post-employment health care plan:			
Present value of defined benefit obligation	**(158,573)**	**(147,917)**	**(141,911)**

	2012	2011	2010
Employee pension plan:			
Experience adjustments on plan liabilities — gains	8,090	—	—
Experience adjustments on plan assets — gains	67,304	17,085	11,385
Post-employment health care plan:			
Experience adjustments on plan liabilities — gains (losses)	10,028	4,368	(3,645)

WorkSafeBC anticipates $40,334 will be contributed to the employee defined benefit pension plan in 2013, comprised of $16,577 from employee contributions and $23,757 from employer contributions.

Related party transactions — employee pension plan

WorkSafeBC provides pension plan benefits for its employees. Transactions with the Workers' Compensation Board Superannuation Plan are transactions between related parties as detailed in the following table:

	2012	2011
Transactions:		
Contributions from employees	15,455	14,289
Contributions from employer	25,052	161,526

All terms and conditions of the post-employment benefit plans remained unchanged throughout 2011 and 2012. The plans did not provide guarantees to any parties.

Note 10 — Claim benefit liabilities and costs ($ Canadian thousands)

Accounting policy

At the end of each year WorkSafeBC determines its claim benefit liabilities for all injuries that have occurred to that time. WorkSafeBC recognizes claim benefit liabilities in the year that a reported compensable workplace injury occurs or a disease is diagnosed, as defined by the *Workers Compensation Act* of British Columbia and/or by WorkSafeBC policy.

Benefit liabilities are measured, by applying actuarial methods, as the present value of all future benefit payments expected to be made for claims occurring in the current fiscal year or in any prior year. Benefit liabilities include provision for all benefits covered by applicable legislation, policies, and/or administrative practices in respect of existing claims.

Benefit liabilities fall into two categories:

- Unfinalled claim liabilities consisting of:
  - — A provision for future payments on claims not finalized to date
  - — The capitalized value of the estimated future cost of administering existing claims
- Capitalized value of future monthly payments for pension awards already made (pension fund liabilities) under the long-term disability and survivor benefits

WorkSafeBC appoints an independent consulting actuary to examine the benefit liabilities, underlying assumptions, and methods, who then issues a report to WorkSafeBC. The opinion of the consulting actuary is appended to these consolidated financial statements.

Liability for long-latency occupational disease claims

In March 2011, the Canadian Actuarial Standards Board (ASB) issued new actuarial standards of practice for workers' compensation organizations requiring the recognition of a liability for long-latency occupational diseases. These are occupationally caused diseases, currently recognized as compensable, that will manifest as claims in future years for which there has already been partial exposure to the disease-causing agent, but no current disease diagnosis. This compares to the current liability, which only captures the future costs of currently recognized disease claims already diagnosed. The new standards are applicable to calculations dates on or after December 31, 2014. This delayed implementation is to permit workers' compensation organizations to prepare and establish methods for calculating this liability. To this end, the Canadian Institute of Actuaries Workers' Compensation Committee has initiated a research project to offer guidance on this liability calculation. This liability, which WorkSafeBC will likely begin recognizing in 2014, could be significant.

Assumptions and actuarial methods

The following table summarizes the main underlying actuarial assumptions used in estimating the two categories of benefit liabilities noted above.

	Actuarial assumptions							
				Economic assumptions				
	Runoff pattern	Future mortality	Expense rate	Investment return	CPI increase	Wage growth	Health care inflation	Claim administration inflation
Unfinalled claims liabilities								
Short-term disability	✔			✔	✔	✔		
Long-term disability	✔	✔		✔	✔	✔		
Survivor benefits	✔	✔		✔	✔	✔		
Health care	✔			✔			✔	
Vocational rehabilitation	✔			✔	✔	✔		
Claim administration			✔	✔	✔	✔		✔
Pension fund liabilities								
Long-term disability		✔		✔	✔			
Survivor benefits		✔		✔	✔			

Note 10 — continued

Runoff pattern

Methods and assumptions

The runoff pattern for unfinalled claims is intended to be an unbiased estimate of the future cost runoff on existing claims. It is normally calculated using the average runoff pattern of the five most recent calendar years. This averaging period may be modified where there is reason to believe the observed experience in the most recent five years is not representative of future expected payments.

Strengths and limitations

The main strength of this methodology is that it recognizes recent payment patterns which normally should be representative of future payment patterns, at least in the short to medium term. Further, using a multi-year average pattern provides greater credibility to the runoff pattern assumption and reduces the impact of random statistical fluctuations.

The main limitation of the method is that the recent payment pattern is assumed to apply to the long-tailed portion of the business (mainly long-term disability and health care), which may extend as much as 50 years from the date of injury. The risk that actual future payment patterns will differ from those assumed increases as one moves into the medium to long duration portion of the liability.

Future mortality

Methods and assumptions

Future mortality rates must be estimated to determine the liability for monthly pensions established for long-term disability claimants and the dependants receiving survivor benefits. This mortality basis is used both for the unfinalled claims liability and the pension fund liability.

In 2012, WorkSafeBC revised its mortality assumptions to reflect the longer lifespan of injured workers who receive pension benefits. The last significant adjustment to the mortality assumptions was made in 2007. The effect of the mortality basis change was a $170-million increase to claims costs in 2012.

Mortality assumptions are intended to be unbiased estimates of future mortality experiences among WorkSafeBC pension recipients (claimants and survivors). The mortality assumptions are determined through a two-stage process:

- First, the mortality levels currently experienced by pensioners (long-term disability and survivor benefits) are measured via a study of recent actual experience of these claimants and survivors;
- The mortality rates are then projected forward. This involves reducing the mortality rates to allow for anticipated greater longevity in the future. The improvement rates used are based on studies and projections by the Social Security Administration (SSA) agency in the United States.

Strengths and limitations

The main strength of this methodology is that the actual mortality experience of WorkSafeBC pension recipients (claimants and survivors) is used as the starting point in arriving at a mortality assumption.

The methodology's main limitation is the risk that the future mortality improvements of these pension recipients will deviate from the assumed improvements derived from the SSA studies.

Expense rate

Methods and assumptions

The expense rate is the ratio of claim administration costs divided by benefit dollars paid (or capitalized, in the case of pension awards): how much it costs to pay one dollar of claim benefits.

Expense rates are determined by a periodic study examining actual claim administration expenses (over all cost centres in WorkSafeBC) incurred in a given year as a proportion of the claim payments/awards in that year. These expense rates vary by benefit type and are intended to represent the ongoing cost of administering existing claims. These expense rates are the prime drivers for calculating claims administration liability.

Strengths and limitations

The main strength of this methodology is that WorkSafeBC's actual expense levels and actual claim payment/award levels are reflected in the derivation of the expense rates; the expense levels are those actually experienced by WorkSafeBC.

The methodology's main limitation is the risk that future expense levels will deviate from current expense levels either understating or overstating claim administration liability.

Economic assumptions

These benefits are calculated using a discount rate of 3.0 percent — the assumption is that investment income will be earned at an annual rate 3.0 percent higher than the annual rate of general inflation in the long term. This real discount rate gives rise to the net discount rates used in calculating the various components of the benefit liabilities. These net discount rates are the differences between the assumed investment rate (long-term assumption of 5.5 percent return) and the assumed growth rates of the specific factors driving benefit increases. These net discount rates are as follows:

Note 10 — continued

Factor	Net discount rate	
	2012	2011
Health care inflation	0.0%	0.5%
Wage growth	2.0%	2.0%
Claim administration inflation	2.5%	2.5%
Benefits indexed to inflation minus 1%	4.0%	4.0%

The health care net discount rate change, from 0.5 percent in 2011 to 0.0 percent in 2012, reflects an increase in the assumed inflation rate of health care as observed from recent historical experience.

Benefit liabilities

	2012						
	Short-term disability	Long-term disability	Survivor benefits	Health care	Vocational rehabili-tation	Claim adminis-tration	Total
Balance — January 1	304,200	5,667,107	866,859	1,959,085	227,247	630,242	9,654,740
Add: Claim costs:							
Current year's injuries	293,085	284,551	26,648	330,544	82,176	233,351	1,250,355
Prior years' injuries	31,553	263,037	47,307	204,742	52,711	70,204	669,554
	324,638	547,588	73,955	535,286	134,887	303,555	1,919,909
Less: Claim payments made:							
Current year's injuries	155,807	3,361	1,020	103,992	2,477	104,398	371,055
Prior years' injuries	145,546	463,652	65,725	222,533	108,887	139,301	1,145,644
	301,353	467,013	66,745	326,525	111,364	243,699	1,516,699
Mortality basis change	—	134,110	35,728	—	—	—	169,838
Health care net discount rate change	—	—	—	158,983	—	—	158,983
	—	134,110	35,728	158,983	—	—	328,821
Balance — December 31	**327,485**	**5,881,792**	**909,797**	**2,326,829**	**250,770**	**690,098**	**10,386,771**
Represented by:							
Provision for unfinalled claims	327,485	1,760,786	87,002	2,326,829	250,770	690,098	5,442,970
Pension awards, capitalized values	—	4,121,006	822,795	—	—	—	4,943,801
	327,485	**5,881,792**	**909,797**	**2,326,829**	**250,770**	**690,098**	**10,386,771**

Mortality basis change resulted from a revision of mortality assumptions reflecting the continuing and longer lifespan of injured workers receiving pension benefits.

The health care net discount rate change decreased from 0.5 percent at December 31, 2011, to 0.0 percent at December 31, 2012, to reflect an increase in the assumed inflation rate for health care.

Note 10 — continued

Benefit liabilities

	2011						
	Short-term disability	Long-term disability	Survivor benefits	Health care	Vocational rehabilitation	Claim administration	Total
Balance — January 1	284,556	5,649,938	859,098	1,775,617	193,947	626,213	9,389,369
Add: Claim costs							
Current year's injuries	271,752	231,919	23,100	296,326	67,523	199,202	1,089,822
Prior years' injuries	41,244	186,652	49,482	178,270	65,952	33,868	555,468
	312,996	418,571	72,582	474,596	133,475	233,070	1,645,290
Less: Claim payments made:							
Current year's injuries	147,294	833	1,044	91,949	1,252	88,430	330,802
Prior years' injuries	146,058	400,569	63,777	199,179	98,923	140,611	1,049,117
	293,352	401,402	64,821	291,128	100,175	229,041	1,379,919
Balance — December 31	**304,200**	**5,667,107**	**866,859**	**1,959,085**	**227,247**	**630,242**	**9,654,740**
Represented by:							
Provision for unfinalled claims	304,200	1,824,522	73,068	1,959,085	227,247	630,242	5,018,364
Pension awards, capitalized values	—	3,842,585	793,791	—	—	—	4,636,376
	304,200	**5,667,107**	**866,859**	**1,959,085**	**227,247**	**630,242**	**9,654,740**

The following is a reconciliation of claim benefit liabilities:

	2012						
	Short-term disability	Long-term disability	Survivor benefits	Health care	Vocational rehabilitation	Claim administration	Total
Balance — January 1	304,200	5,667,107	866,859	1,959,085	227,247	630,242	9,654,740
Add:							
Provision for current year's injuries	137,278	281,190	25,628	226,552	79,699	128,953	879,300
Accretion expense for prior years' liabilities	10,020	228,130	34,978	77,738	8,014	23,729	382,609
Prior years' claim costs experience higher (lower) than expected	21,533	34,907	12,329	127,004	44,697	46,[illegible]5	286,945
Mortality basis change	—	134,110	35,728	—	—	—	169,838
Health care net discount rate change	—	—	—	158,983	—	—	158,983
	168,831	678,337	108,663	590,277	132,410	199,157	1,877,675
Less:							
Payments for prior years' injuries	145,546	463,652	65,725	222,533	108,887	139,301	1,145,644
Balance — December 31	**327,485**	**5,881,792**	**909,797**	**2,326,829**	**250,770**	**690,098**	**10,386,771**

Note 10 — continued

Benefit liabilities

	2011						
	Short-term disability	Long-term disability	Survivor benefits	Health care	Vocational rehabilitation	Claim administration	Total
Balance — January 1	284,556	5,649,938	859,098	1,775,617	193,947	626,213	9,389,369
Add:							
Provision for current year's injuries	124,458	231,086	22,056	204,377	66,271	110,772	759,020
Accretion expense for prior years' liabilities	13,409	324,352	49,472	100,428	9,687	33,512	530,860
Prior years' claim costs experience higher (lower) than expected	27,835	(137,700)	10	77,842	56,265	356	24,608
	165,702	417,738	71,538	382,647	132,223	144,640	1,314,488
Less:							
Payments for prior years' injuries	146,058	400,569	63,777	199,179	98,923	140,611	1,049,117
Balance — December 31	**304,200**	**5,667,107**	**866,859**	**1,959,085**	**227,247**	**630,242**	**9,654,740**

Accretion expense for prior years' liabilities represents the expected interest accrued on benefit liabilities for prior years' injuries (i.e., opening benefit liabilities).

Changes in actuarial valuation of benefit liabilities

	2012			2011		
	Claim costs	*Less:* Benefit payments	Changes in actuarial valuation of benefit liabilities	Claim costs	*Less:* Benefit payments	Changes in actuarial valuation of benefit liabilities
Short-term disability	324,638	301,353	23,285	312,996	293,352	19,644
Long-term disability	547,588	467,013	80,575	418,571	401,402	17,169
Survivor benefits	73,955	66,745	7,210	72,582	64,821	7,761
Health care	535,286	326,525	208,761	474,596	291,128	183,468
Vocational rehabilitation	134,887	111,364	23,523	133,475	100,175	33,300
	1,616,354	1,273,000	343,354	1,412,220	1,150,878	261,342
Claim administration	303,555	243,699	59,856	233,070	229,041	4,029
	1,919,909	1,516,699	403,210	1,645,290	1,379,919	265,371
Mortality basis change	169,838	—	169,838	—	—	—
Health care net discount rate change	158,983	—	158,983	—	—	—
Total	**2,248,730**	**1,516,699**	**732,031**	**1,645,290**	**1,379,919**	**265,371**

Note 10 — continued

Sensitivity of actuarial assumptions ($ Canadian millions)

The most significant assumption in determining claim benefit liabilities is the net discount rates. The net discount rates are differences between the assumed investment rate (long-term assumption of 5.5 percent return) and the assumed growth rates of the specific factors driving benefit increases. A reduction in the assumed net discount rates would increase claim benefit liabilities and reduce the operating surplus, and vice versa.

The table below shows the sensitivity of claim benefit liabilities to an immediate 1-percent increase or decrease in these key net discount rate assumptions used to determine the liabilities:

	Net discount rate		Increase (decrease) in liabilities ($ millions)			
	2012	2011	2012		2011	
+/- % change on net discount rates			+1%	-1%	+1%	-1%
Health care inflation	0.0%	0.5%	$ (290)	$ 373	$ (230)	$ 293
Wage growth	2.0%	2.0%	$ (114)	$ 135	$ (130)	$ 155
Claim administration inflation	2.5%	2.5%	$ (53)	$ 65	$ (58)	$ 58
General inflation rate	3.0%	3.0%	$ (590)	$ 698	$ (572)	$ 678

The net discount rate for health care inflation was lowered from 0.5 percent in 2011 to 0.0 percent in 2012, resulting in a $159-million increase in the benefit liabilities

Management of insurance risks and rate-setting

In accordance with the *Workers Compensation Act*, the Accident Fund is funded by charging annual assessment rates to employers. These rates are applied as a percentage of assessable payroll to determine the premium each employer must pay.

The annual rate applicable to any given employer is determined as the sum of four main components:

- The cost of new injuries — calculated based on the industry in which the employer operates and the historical actuarial cost experience of that industry
- Amortization of the industry surplus or deficit — each industry group maintains its own insurance pool and is responsible for funding any deficits and receives the benefit (rate reduction) of any surpluses
- Capping of rate increases and decreases — the change in rate for any classification unit within an industry group is usually limited to a 20-percent increase or decrease according to WorkSafeBC's normal rate-setting practices
- Experience rating — the actual rate paid by a given employer within an industry group is further increased or decreased depending on the relative historical cost performance of the employer relative to other employers in that industry group

Under the *Workers Compensation Act* WorkSafeBC has the power to set assessment rates to recover any shortfalls in assessment collection, or fund any required reserves.

Concentration of risks

WorkSafeBC underwrites workplace injury insurance for all employers across the entire province of British Columbia. The premium rates charged to employers are differentiated by industry, reflecting the variety of loss frequencies experienced in different industries. In addition, rates charged for employers in the same industry are further adjusted based on the historical claims experience of each employer relative to the industry as a whole. WorkSafeBC is also potentially subject to risks resulting from litigation or legislative changes. Such changes can produce an immediate pervasive increase in the cost of the entire portfolio of insurance contracts.

Liquidity of benefit liability risks

The following table estimates the expected amounts and timing of future benefit and associated claim administration payments for the provision of outstanding claims. The expected timing of payments from the provision for outstanding claims involves considerable uncertainty.

Expected timing of future payments for outstanding claims	2012	2011
Up to 1 year	5%	5%
Over 1 year and up to 5 years	13%	14%
Over 5 years and up to 10 years	15%	15%
Over 10 years and up to 15 years	14%	14%
Over 15 years	53%	52%
Total	100%	100%

Note 10 — continued

Claims development ($ Canadian millions)

In the claims development table below, cumulative claim costs are shown for each Year of Injury (YOI) and Year of Estimate (YOE). Each cell contains actual costs paid from YOI to YOE, plus estimated costs projected to be paid beyond the YOE.

	Year of injury										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Year of estimate											
2003	1,087										
2004	1,020	1,097									
2005	1,007	1,093	1,136								
2006	932	1,031	1,075	1,121							
2007	878	971	1,032	1,102	1,186						
2008	852	938	1,007	1,096	1,200	1,274					
2009	829	911	980	1,074	1,196	1,268	1,235				
2010	815	888	957	1,049	1,182	1,268	1,175	1,112			
2011	817	886	950	1,056	1,206	1,310	1,198	1,139	1,236		
2012	830	901	967	1,081	1,237	1,372	1,267	1,269	1,381	1,446	11,751
Current (2012) estimate of cumulative claim costs	830	901	967	1,081	1,237	1,372	1,267	1,269	1,381	1,446	11,751
Cumulative payments	(535)	(568)	(598)	(669)	(758)	(815)	(648)	(619)	(525)	(270)	(6,005)
Outstanding claims (undiscounted)	295	333	369	412	479	557	619	650	856	1,176	5,746
Discount											(2,948)
2002 and prior years of injury											1,868
Survivor benefits											87
Claim administration											690
Subtotal of outstanding claims — unfinalled liabilities											**5,443**
Pension liabilities											4,944
Total of outstanding claims per statement of financial position											**10,387**

Claim costs for most YOI exhibit a downward trend by the YOE. This is primarily due to a general reduction in unit liability costs over the past decade. This results in a higher estimated cost being replaced by a lower actual cost each year as the YOE progresses which, in turn, produces the downward trend shown. This downward trend appears to have reversed in the last two years, mainly due to recent higher levels of health care payments and liabilities.

Liability adequacy test

IFRS 4 (*Insurance Contracts*) requires that an insurer apply a liability adequacy test that meets specified minimum requirements, as follows:

(a) The test considers current estimates of all contractual cash flows and related cash flows, such as claim administration costs, as well as cash flows resulting from embedded options and guarantees; and

(b) If the test shows the liability is inadequate, the entire deficiency is recognized in operating surplus or deficit.

If these minimum tests are met, there are no further requirements.

The Practice Council of the Canadian Institute of Actuaries has concluded that current Canadian valuation standards of practice, when applied to valuation of workers' compensation liabilities, would meet the liability adequacy testing requirements of IFRS 4. Accordingly, a separate annual liability adequacy test is not required for WorkSafeBC claim benefit liabilities.

Note 11 — Reserves ($ Canadian thousands)

Accounting policy

WorkSafeBC has established a number of different reserves for both specific and general purposes. Creation of these reserves was either required by legislation, as specified below, or approved by the Board of Directors. Reserves were funded through appropriations from the unappropriated balance. Transfers to and from reserves are accounted for as appropriations from or returns to the unappropriated balance.

Special Reserves

The $40-million Accident Fund special reserves, established pursuant to Section 39 of the *Workers Compensation Act*, include the:

- Contingent Reserve [Section 39(1)(b)], which provides a reserve in aid of industries or classes that may become depleted or extinguished
- Disaster Reserve [Section 39(1)(d)], which provides a reserve to meet the loss arising from a disaster or other circumstances WorkSafeBC considers to be an unfair burden to the employers in a particular class
- Enhancement Reserve [Section 39(1)(e)], which provides a reserve for payment of that portion of a disability enhanced by reason of a pre-existing disease, condition, or disability

Claims deemed by WorkSafeBC to be covered by these reserves are charged to current operations but prorated to the various employer classes, rather than being charged directly to any specific class.

Latent Occupational Disease Reserve

WorkSafeBC established a $200-million Latent Occupational Disease Reserve relating to occupational diseases that are not currently recognized as compensable but may be recognized in the future based on new scientific evidence. These claims, unknown at present, will not be reported for a number of years due to the extended latency periods and the delay before they are scientifically recognized.

Earthquake Disaster Reserve

A $20-million Earthquake Disaster Reserve was established to provide for claims from workers who may be injured in the course of their employment during an earthquake disaster.

Research Reserve

The $30-million Accident Fund Research Reserve, established pursuant to Section 111 of the *Workers Compensation Act*, is a reserve for the purpose of funding initiatives in scientific study, as well as disseminating and applying ways to reduce occupational injury, disease, impairment, or disability arising from employment, in support of WorkSafeBC's strategic plan. The $30-million reserve will remain intact, while investment income earned on the reserve, calculated using WorkSafeBC's smoothed accounting rate of return, will be directed to funding research.

Injury Reduction and Return-to-Work Initiatives Reserve

In 2010, WorkSafeBC established a $50-million reserve from its unappropriated balance to provide funding for piloting and implementing initiatives in workplace injury reduction and disability and injury management. This reserve will remain intact; investment income earned on the reserve, calculated using WorkSafeBC's smoothed accounting rate of return, will be directed to funding projects in this area.

General Reserve

In 2006, WorkSafeBC established a $250-million General Reserve from its unappropriated balance to provide for special circumstances, including legislative changes that might significantly impact the organization's consolidated financial statements and the assessment rates levied in a particular year. The target level of the reserve will be evaluated and, if necessary, adjusted each year based on emerging circumstances — including pending legislation. This reserve will be drawn down when circumstances in the year would otherwise significantly impact employer assessment rates.

Capital Adequacy Reserve

In 2007, WorkSafeBC established a Capital Adequacy Reserve to ensure it maintains an asset level for the Accident Fund that is adequate to mitigate the risks in its assets and liabilities. Funds will be appropriated from the unappropriated balance into the Capital Adequacy Reserve, based on an internal policy, until the reserve is built up to the target Capital Adequacy Reserve level determined using a methodology derived from capital reserve guidelines of the federal Office of the Superintendent of Financial Institutions (OSFI). Although WorkSafeBC is not subject to regulatory oversight by OSFI, it seeks to provide security for worker benefits comparable to that required of private insurers regulated by OSFI.

In 2012, $203 million (2011: $104 million) was withdrawn from the Capital Adequacy Reserve.

Note 11 — continued

Capital Adequacy Reserve

	December 31, 2012	December 31, 2011
Capital Adequacy Reserve	962,000	1,165,000
Target Capital Adequacy Reserve level	3,434,000	2,897,000

The target Capital Adequacy Reserve level is affected by the value of assets and liabilities to which risk factors (derived from OSFI guidelines) are applied.

Reserves

	December 31, 2012	December 31, 2011
Special reserves		
Contingent Reserve	2,500	2,500
Disaster Reserve	16,500	16,500
Enhancement Reserve	21,000	21,000
	40,000	40,000
Latent Occupational Disease Reserve	200,000	200,000
Earthquake Disaster Reserve	20,000	20,000
Research Reserve	30,000	30,000
Injury Reduction and Return-to-Work Initiatives Reserve	50,000	50,000
General Reserve	250,000	250,000
Capital Adequacy Reserve	962,000	1,165,000
Total	**1,552,000**	**1,755,000**

Note 12 — Premiums ($ Canadian thousands)

Accounting policy

Premium revenue is comprised primarily of statutory employer assessments for workplace injury coverage. Rateable employer premiums are assessed when employers report their insurable earnings for the current premium year. For employers who have not reported, premiums are estimated and any differences between actual and estimated premiums are adjusted when insurable earnings are reported. Self-insured employers' premiums are recognized based on the costs of their employees' claims (see Note 13).

Premium revenue is fully earned and recognized over the period that coverage is provided. As a significant portion of the premium income for the year relating to rateable employers is not received until after year-end, the amount shown is an estimate based on economic and statistical data (see Note 3). The difference between the estimate and actual income received is credited or charged to income in the following year. Historically, the difference has not been significant.

Reported premium revenue for the period income is net of adjustments for premiums from prior periods; bad debt write-offs, and Partners program financial incentives; it includes penalties on overdue assessments.

Partners in Injury and Disability Prevention program

The Partners in Injury and Disability Prevention program is an employer incentive program in support of the WorkSafeBC vision of workers and workplaces safe and secure from injury, disease, and death. Through financial incentives, this program encourages employers to implement health, safety, and return-to-work management systems. WorkSafeBC recognizes the estimated payments to qualified employers expected to have satisfied the program criteria as at December 31 as a provision. These amounts are recognized as offsets against premiums (see Note 3). The difference between the estimate and actual payments provided to employers is credited or charged to income in the following year. Historically, the difference has not been significant.

Capping of rate changes and amortization of balance

The capping of rate changes represents the effect of WorkSafeBC's policy to limit changes to the rates of any rate group from year to year. Amortization of the balance represents the effect of the planned amortization of the projected unappropriated balance (surplus or deficit determined on a smoothed basis) of each rate group at the beginning of each year.

Note 12 — continued

Premium income

	2012	2011
Rateable classes	1,280,572	1,289,942
Partners in Injury and Disability Prevention program financial incentives	(36,400)	(27,830)
Capping of rate changes and amortization of balance		
Capping of rate changes	(24,560)	(45,498)
Amortization of balance	(93,524)	(118,664)
	(118,084)	(164,162)
Penalties on overdue assessments	4,216	5,543
Rateable employers	1,130,304	1,103,493
Self-insured employers (Note 13)	32,665	41,977
Total	**1,162,969**	**1,145,470**

Note 13 — Self-insured employers ($ Canadian thousands)

Accounting policy

Certain employers are permitted to be self-insured under the *Workers Compensation Act* of British Columbia (the Act). These employers' premiums are billed and the amounts recognized on a monthly basis equal to the benefit payments made for short-term disability, health care, vocational rehabilitation, and for the values of pension reserves for long-term disability and survivor benefits, based on the present value of monthly pension payments over the expected length of the pension. Self-insured employers are also billed for their proportionate share of WorkSafeBC administration costs and other costs where applicable; they earn or are charged interest on the monthly average deposit balance under Section 48 of the Act. Additionally, in those years when investment return on the pension reserve exceeds the minimum required return, the surplus is credited to the employer and applied to reduce claim costs reimbursements. Conversely, the deficit is charged to the employer when investment return is less than the minimum required.

Premium income — self-insured employers

	2012	2011
Current premium income	32,665	41,977
	32,665	41,977
Claim costs		
Short-term disability	4,808	6,294
Long-term disability	4,244	10,515
Survivor benefits	2,946	1,195
Health care	16,443	12,968
Vocational rehabilitation	1,448	2,062
Claim administration	4,477	5,004
	34,366	38,038
Share of special reserves costs	3,596	2,980
Operating costs	2,594	2,581
Other costs (income)	(337)	2,207
	40,219	45,806
Less:		
Share of investment income	(7,554)	(3,829)
Total	**32,665**	**41,977**

Included in the benefit liabilities is $144 million (2011: $141 million) of provision for unfinalled claims for self-insured employers. An equivalent amount is included in receivables because these liabilities will be paid by those employers in future years; hence, they do not affect WorkSafeBC's unfunded liability.

Note 14 — Other income ($ Canadian thousands)

Accounting policy

Other income includes prevention penalties for workplace safety infractions, Freedom of Information and disclosure fees, and amounts charged for publications and rentals, along with other incidental revenues. Prevention penalties are recognized when the penalties are assessed; other revenues are recognized when the services are provided.

Other income

	2012	2011
Third-party litigation fee recoveries	6,432	3,551
Prevention penalties	2,817	4,049
Miscellaneous income	1,616	1,425
Total	**10,865**	**9,025**

Note 15 — Administration costs ($ Canadian thousands)

Accounting policy

Administration costs include claim administration costs, prevention costs, appellate costs, and general and administrative support costs. These expenses are recognized when the goods and services have been received. Claim administration costs relate to the portion of administration costs incurred to adjudicate claims for compensation, manage claims, and process claim payments.

Administration costs

	2012					
	Prevention	Customer services	Information technology and facilities	Corporate services	WCAT, Review Division, and advisors	Total
Salaries and employee benefits	48,063	143,228	31,978	75,873	13,080	312,222
Amortization of capital assets	1,782	12,581	9,630	2,495	560	27,048
WCAT and advisors	—	—	—	—	26,498	26,498
Consulting fees	1,370	5,798	10,719	4,401	8	22,296
Office expenses and communication	1,677	5,378	12,148	1,283	393	20,879
Building expenses	84	413	9,090	2,069	52	11,708
Sessional doctor fees	4	8,554	—	4	150	8,712
Travel and vehicle expenses	3,283	2,946	284	420	42	6,975
Other administration expenses	3,725	12,124	1,800	11,578	308	29,535
Cost recoveries	(322)	(22,400)	(7,020)	(13,883)	—	(43,625)
	59,666	168,622	68,629	84,240	41,091	422,248
Less:						
Claim administration costs	—	136,514	32,719	47,183	27,283	243,699
Total	**59,666**	**32,108**	**35,910**	**37,057**	**13,808**	**178,549**

Note 15 — continued

Administration costs

	2011					
	Prevention	Customer services	Information technology and facilities	Corporate services	WCAT, Review Division, and advisors	Total
Salaries and employee benefits	46,204	136,313	30,520	57,259	12,120	282,416
Amortization of capital assets	2,144	11,940	10,216	2,281	457	27,038
WCAT and advisors	—	—	—	—	25,319	25,319
Consulting fees	930	6,130	11,181	5,096	(5)	23,332
Office expenses and communication	1,292	5,553	11,314	1,506	422	20,087
Building expenses	85	414	9,921	1,968	24	12,412
Sessional doctor fees	1	6,616	—	3	88	6,708
Travel and vehicle expenses	3,008	2,324	321	456	28	6,137
Other administration expenses	3,075	9,632	2,161	12,312	312	27,492
Cost recoveries	(349)	(21,976)	(7,257)	(12,271)	—	(41,853)
	56,390	156,946	68,377	68,610	38,765	389,088
Less:						
Claim administration costs	—	128,523	39,707	34,364	26,447	229,041
Total	**56,390**	**28,423**	**28,670**	**34,246**	**12,318**	**160,047**

Note 16 — Injury research and reduction initiatives ($ Canadian thousands)

Accounting policy

WorkSafeBC provides funding to support high-quality, independent, scientific study relating to workplace health and safety, as well as research in the area of workers' compensation. Funding is also provided to entities furthering the education and development of safe workplace practices. These expenses are recognized when the services or deliverable milestones have been performed.

Partners in Injury and Disability Prevention program administration

The Partners in Injury and Disability Prevention program supports WorkSafeBC's vision of workers and workplaces safe and secure from injury, disease, and death. Funding is provided to health and safety associations and other industry organizations to administer this financial incentive program.

Injury research and reduction initiatives

	2012	2011
Partners in Injury and Disability Prevention program administration	5,498	5,385
Injury-reduction initiatives	5,487	19,005
Research grants	2,168	2,159
Total	**13,153**	**26,549**

Note 17 — Commitments ($ Canadian thousands)

WorkSafeBC has several operating leases for office space. Renewal options are a feature in some of the lease agreements. As WorkSafeBC may or may not exercise its rights under these options, renewal amounts are excluded from commitments. WorkSafeBC has also committed to fund certain research projects and injury-reduction initiatives. Future commitments for payments expected to be charged against operating costs over the next five years are as follows:

2012	Office space	Research grants and awards	Injury-reduction initiatives	Total
2013	3,542	1,044	8,626	13,212
2014	1,595	449	549	2,593
2015	71	325	—	396
2016	5	—	—	5
2017 and beyond	—	—	—	—
Total	**5,213**	**1,818**	**9,175**	**16,206**

2011	Office space	Research grants and awards	Injury-reduction initiatives	Total
2012	3,424	1,937	7,910	13,271
2013	3,484	594	1,813	5,891
2014	1,545	685	517	2,747
2015	71	50	—	121
2016	4	—	—	4
2017 and beyond	—	—	—	—
Total	**8,528**	**3,266**	**10,240**	**22,034**

Note 18 — Contingencies

Interest policy

WorkSafeBC's interest policy provides that interest is paid only where it is demonstrated that an error was made by a WorkSafeBC staff member that requires a retroactive payment of compensation benefits. The interest policy is currently under review and stakeholders have been consulted to provide feedback on potential policy amendments. WorkSafeBC's Policy and Regulation Division is currently analyzing stakeholder feedback and potential policy options. Once this analysis is complete, stakeholder feedback and potential policy options and implications will be presented to WorkSafeBC's Board of Directors for consideration and decision.

The actual financial impact of the interest policy change cannot be reasonably and reliably estimated until policy amendments, if any, are approved by the Board.

Legal proceedings

At any given time, WorkSafeBC is party to various claims and legal proceedings related to its operations. Management believes WorkSafeBC has strong defences against these claims and that no financial provisions for them are appropriate or required.

Indemnification agreements

In the normal course of operations, WorkSafeBC enters into contractual agreements containing standard contract terms which provide that WorkSafeBC shall indemnify certain parties. The potential liability of WorkSafeBC under the terms will vary depending on the wording of the terms and/or the occurrence of contingent or future events, the nature of which prevents WorkSafeBC from making a reasonable estimate of the potential amount that may be payable to those contractual parties. WorkSafeBC also indemnifies its employees and members of its Investment Committee against all claims or proceedings brought against them for any actions performed which the individual believed were within the jurisdiction of WorkSafeBC and in the course of their employment, or performed with reasonable care within the terms of reference of the committee. WorkSafeBC has not made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

Note 19 — Capital management ($ Canadian thousands)

WorkSafeBC's total capital available or funded position is represented by the sum of the unappropriated surplus and reserves. Its objectives when managing capital are as follows:

- To build up capital to a level that provides a comparable degree of security of worker benefits to that required for private insurers regulated under the federal Office of the Superintendent of Financial Institutions (OSFI). WorkSafeBC has adopted a capital adequacy policy modelled after OSFI guidelines. This policy specifies the criteria under which the capital adequacy reserve will be built up or drawn down.
- To mitigate the risks in the investment portfolio and to reduce volatility of employer premium rates arising from investment in equities. Equity investments are expected to produce higher long-term returns and, thus, lower long-term employer assessment costs — but they are subject to market volatility. Strong capital reserves can be drawn upon to limit employer premium-rate volatility arising from investment in equities.

Note 19 — continued

- To cover reasonable levels of both foreseen and unforeseen plausible events that, even though they occur relatively infrequently, could have a significant financial impact on WorkSafeBC.

These objectives align with WorkSafeBC's strategic objective to ensure the long-term financial sustainability of the workers' compensation system.

WorkSafeBC maintains a capital adequacy reserve and has set a target capital reserve level (see Note 11) to achieve the capital management objectives noted above. The following table shows the total assets as a ratio of the target asset requirement level, which is based on the total liabilities, plus the target capital adequacy reserve level, plus other reserves. WorkSafeBC manages its capital on the basis of achieving 100 percent of the target asset requirement over the long term.

	December 31, 2012	December 31, 2011
Total assets	13,151,705	12,548,009
Target asset requirement level	14,827,414	13,490,641
Percent of target assets achieved	89%	93%

Note 20 — Related party transactions

B.C. public sector

WorkSafeBC is accountable to the public through the Government of British Columbia, but is separate and distinct from government. It is not part of the B.C. government reporting entity, and is not considered a related party for financial reporting purposes.

Transactions with various B.C. government-controlled ministries, agencies, and Crown corporations are at prevailing market prices and settled on normal trade terms.

Key management personnel

(The information presented in this section has not been rounded to the nearest $ thousands.)

Compensation

The following table shows the salaries and short-term benefits for WorkSafeBC's key management personnel:

2012	Salary	Short-term benefits	Bonus	Other earnings	Pension	Long-service benefits	Total
President and CEO	270,000	15,562	118,233	12,026	43,965	—	459,786
Senior Vice-President, Finance/IT and CFO	226,490	15,613	73,755	11,810	33,299	37,231	398,198
Senior Vice-President, HR and Corporate Services	220,000	12,115	75,955	12,126	33,541	—	353,737
Senior Vice-President, Operations	220,000	11,969	74,855	12,026	33,408	—	352,258
Total	**936,490**	**55,259**	**342,798**	**47,988**	**144,213**	**37,231**	**1,563,979**

2011	Salary	Short-term benefits	Bonus	Other earnings	Pension	Long-service benefits	Total
President and CEO	270,000	15,025	123,188	12,026	45,276	—	465,515
Senior Vice-President, Finance/IT and CFO	220,000	14,546	77,550	11,126	34,068	—	357,290
Senior Vice-President, HR and Corporate Services	220,000	11,467	77,550	12,126	34,184	—	355,327
Senior Vice-President, Operations	220,000	11,767	79,200	11,826	34,341	—	357,134
Total	**930,000**	**52,805**	**357,488**	**47,104**	**147,869**	**—**	**1,535,266**

Note 20 — continued

In 2012, the position of Senior Vice-President and Chief Financial Officer was held by two different individuals over different periods; for presentation purposes, compensation paid to these two individuals has been combined in the table above.

Short-term benefits include medical benefits, dental benefits, group life insurance, accident insurance, and the employer's share of contributions or payments to the Canada Pension Plan and Employment Insurance.

Bonuses were awarded based on the achievement of corporate goals and performance targets (see page 23), excluding performance targets related to improved adjudicative decision making.

Other earnings include payout of unused vacation, car allowances, and supplementary executive allowances for reimbursement of medical, dental, and insurance expenses not covered in the employee benefit plans.

Pension costs represent the employer's share of contributions or payments to the WorkSafeBC employee pension plan.

Long-service benefits were paid to the former Senior Vice-President and Chief Financial Officer upon cessation of employment.

The following table shows total compensation for the WorkSafeBC Board of Directors:

	2012			
	Number of individuals	Fees	Statutory benefits	Total
Chair, Board of Directors	1	$ 31,500	$ 722	$ 32,222
Board members	6	$ 110,000	$ 4,112	$ 114,112
Total	**7**	**$ 141,500**	**$4,834**	**$ 146,334**

	2011			
	Number of individuals	Fees	Statutory benefits	Total
Chair, Board of Directors	1	$ 30,000	$ 666	$ 30,666
Board members	6	$ 116,250	$ 4,110	$ 120,360
Total	**7**	**$ 146,250**	**$4,776**	**$ 151,026**

Annual retainers of $15,000 and $7,500 were provided to the Chair of the Board and other Board members respectively. In addition, Board members received $500 per meeting attended, or $250 per meeting attended with duration of less than or equal to four hours. Statutory benefits consist of WorkSafeBC's share of Canada Pension Plan contributions and Employment Insurance premiums when compensation is paid to the individual.

Other transactions with key management personnel and their close family members

WorkSafeBC had a $50,000 contract with a firm, which ended on March 31, 2012, where the principal was a close family member of a member of the Board of Directors. In total, $23,844 was paid on the contract: $2,057 in 2012, $12,775 in 2011, and $9,012 in 2010. A subsequent contract for $26,156 was entered into during 2012 directly with the principal, with payments made in 2012 of $5,687. Both contracts related to consulting services performed for WorkSafeBC on corporate social responsibility and were awarded in accordance with WorkSafeBC's normal procurement policies.

Pension plan

WorkSafeBC has a pension plan which is a related party by virtue of IAS 24 (Related Party Disclosures). Refer to Note 9 for detailed information on the transactions with the pension plan.

Eckler

Actuary's opinion

The liabilities included herein have been computed by WorkSafeBC in accordance with methods and assumptions approved by us. We have made such tests of the calculations as were deemed necessary. We have also examined the data upon which the calculations were based and found it to be sufficient and reliable for our purposes and consistent with WorkSafeBC's financial statements.

The 2012 liabilities shown below reflect a revision to the mortality tables for injured workers receiving disability pensions and for dependants receiving survivor benefits to recognize continuing improvements in mortality. The effect of this revision is to increase the 2012 liabilities by $170 million.

The liabilities under Pension awards, capitalized values are for pensions in payment, and include the effect of cost-of-living increases granted effective January 1, 2013. Apart from the mortality assumptions, these liabilities have been computed using the same assumptions used for the valuation as at December 31, 2011. A net interest rate of 4.0 percent was used to discount pensions. This rate makes implicit provision for the future indexing of pensions on the assumption that investment earnings on WorkSafeBC's assets will exceed increases in the Consumer Price Index (CPI) by 3.0 percent per year, over the long term, and that indexing will be provided at CPI minus 1.0 percent.

The Provision for unfinalled claims represents the liabilities for future claims costs in respect of injuries which occurred during 2012 and prior years, including future pensions other than those already in payment, and future claim administration expenses. It is based on projections of future claim payments and awards using ratios developed from WorkSafeBC's claims experience, average benefit rates, net discount rates reflecting the real rate of return above and, where applicable, the mortality and other assumptions used for computing pension liabilities. The Health care liability is calculated assuming that healthcare costs will increase at the same rate as investment returns, resulting in a net discount rate for this liability of 0 percent. This is a change from 2011 where the corresponding net discount rate was 0.5 percent. The effect of this change is to increase the 2012 liabilities by $159 million.

The methods used in calculating the liabilities were substantially the same as those employed in the previous valuation as at December 31, 2011.

In our opinion, the assumptions made are appropriate, the methods employed are consistent with sound actuarial principles, this valuation conforms with accepted actuarial practice, and the resulting amounts set out below make reasonable provision, as at December 31, 2012, for the future benefit and claims administration expenditures of WorkSafeBC in respect of injuries to December 31, 2012.

($ THOUSANDS)	**Pension awards, capitalized values**	**Provision for unfinalled claims**	**Total**
Benefit liabilities			
Short-term disability	—	327,485	327,485
Long-term disability	4,121,006	1,760,786	5,881,792
Survivor benefits	822,795	87,002	909,797
Health care	—	2,326,829	2,326,829
Vocational rehabilitation	—	250,770	250,770
Claim administration	—	690,098	690,098
	4,943,801	**5,442,970**	**10,386,771**

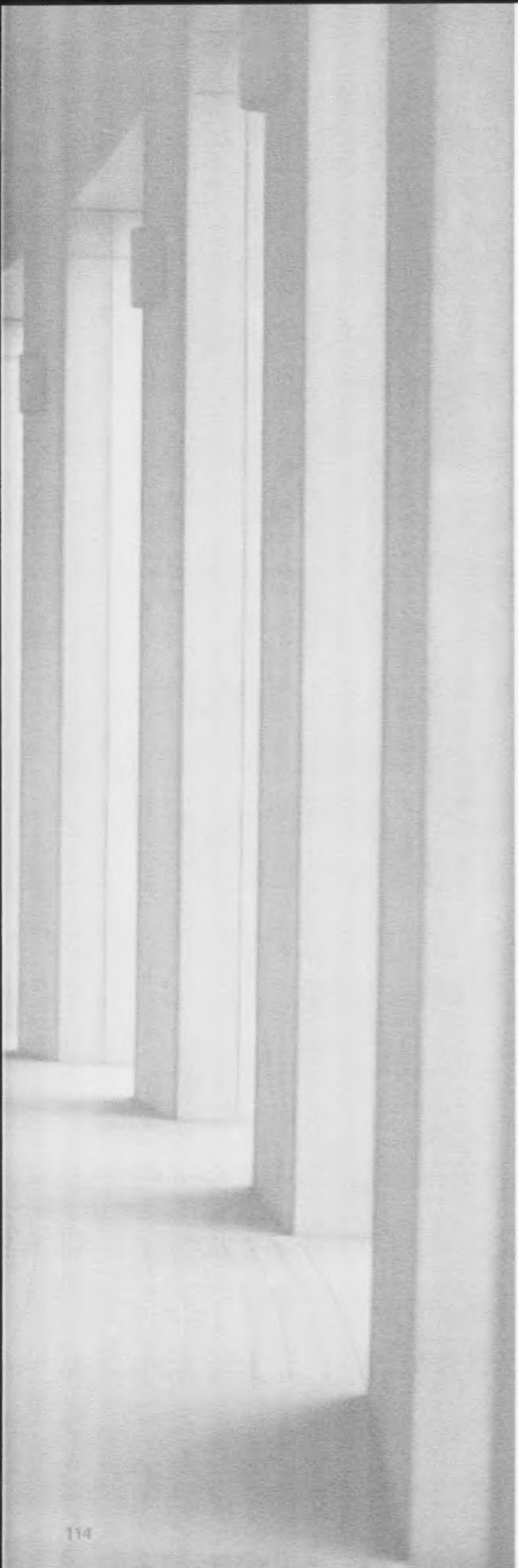
Richard A. Border, FIA, FCIA

Wendy F. Harrison, FSA, FCIA

Actuaries with the firm of Eckler Ltd.

March 27, 2013

Appendices



Appendix A: Linking Costs with Goals and Strategies

In developing the operating budget each year, the Board of Directors and Senior Executive Committee strive for the best possible balance between funding and support of WorkSafeBC's strategic goals. However, WorkSafeBC's goals are broad and our organization shares the responsibility for promoting these goals across different departments and divisions. Consequently, it is difficult to identify the costs of fostering specific goals and objectives.

WorkSafeBC is an integrated and interdependent organization. Most of our programs and initiatives target more than one of the organization's strategic goals. As such, it might be misleading to allocate budget dollars based on specific organizational goals or functions.

Our prevention initiatives illustrate the inherent difficulty in isolating the cost of specific goals. A new prevention program, for instance, may contribute to the goal of improving workplace occupational health and safety. But the program would also support the goal of maintaining financial sustainability and stability while influencing other goals.

Further, the same initiative would likely involve significant contributions from more than one division. WorkSafeBC's annual expenditures can be broken down based on our general business activities, closely associated with groups of strategic goals (as outlined in the table on the next page). But such a system of classification is not exhaustive. These areas of expenditure are accompanied by a ratio, or contextual measure, to help put WorkSafeBC's expenditures in perspective.

The relationship between costs and performance outcomes

The areas of expenditure on the next page are linked with groups of strategic goals. However, changes in costs do not necessarily imply subsequent changes in outcomes. An increasing injury rate, for example, may trigger an increase in expenditures to prevent injuries. As the effects of those expenditures bear results over time performance may improve; however, in the short term, costs may rise while outcomes fall.

In terms of claim administration, an excessive reduction in administrative expenditures might increase claim duration and delay return-to-work outcomes, thus increasing the overall cost to the system. Such examples illustrate the limitations of the relationships outlined in the following table.

Area of expenditure	Strategic goals most directly influenced	Context
Prevention — $73 million or 2.9% of total costs in 2012	Goal #1: Foster the improvement of occupational health and safety in workplaces Goal #4: Maintain financial sustainability and stability	Based on 2.3 million workers (both full- and part-time) and an average of 1,700 hours of paid work in a year, prevention expenditures accounted for $0.019 per paid hour worked in B.C. in 2012 ($0.022 in 2011)
Claim costs — $ 2,005 million or 81.4 % of total costs in 2012	Claim costs are not expended to achieve a specific strategic goal, but are part of WorkSafeBC's legislated mandate	Claim costs accounted for approximately $0.510 per paid hour worked in B.C. in 2012 ($0.371 in 2011). See following page for further discussion.
Customer services and infrastructure — $237 million or 9.6% of total costs in 2012	**Goal #2:** Improve service to stakeholders **a)** Improve satisfaction, accessibility, and public confidence **b)** Improve adjudicative decision making throughout the divisions, ensuring consistency with legislation and policy **Goal #3:** Improve cost-effectiveness and accountability of the services we deliver **Goal #4:** Maintain financial sustainability and stability	Customer service costs represented about $0.060 per paid hour worked in B.C. in 2012 ($0.059 in 2011)
Corporate services (financial management, policy development, governance, corporate services, and more) — $108 million or 4.4% of total costs in 2012	**Goal #2:** Improve service to stakeholders **a)** Improve satisfaction, accessibility, and public confidence **b)** Improve adjudicative decision making throughout the divisions, ensuring consistency with legislation and policy **Goal #3:** Improve cost-effectiveness and accountability of the services we deliver **Goal #4:** Maintain financial sustainability and stability	Corporate service costs represented about $0.027 per paid hour worked in B.C. in 2012 ($0.024 in 2011)
Review Division, external appeals, and workers' and employers' adviser services — $41 million or 1.7% of total costs in 2012	**Goal #2:** Improve service to stakeholders **a)** Improve satisfaction, accessibility, and public confidence **b)** Improve adjudicative decision making throughout the divisions, ensuring consistency with legislation and policy **Goal #3:** Improve cost- effectiveness and accountability of the services we deliver	External service costs represented about $0.010 per paid hour worked in B.C. in 2012 ($0.010 in 2011) Workers and employers benefit from the advisory services provided by the Ministry of Labour and the appeal services offered by the Workers' Compensation Appeal Tribunal (WorkSafeBC funds both services). Workers and employers benefit from these agencies either directly or through the education, outreach, and dialogue they provide. Thus the value of these services extends well beyond the direct number of cases served to affect virtually all claims in the system. Costs associated with the external appeals and advisor systems were about $108 per claim file handled by the workers' compensation system in 2012 ($104 in 2011). Costs associated with the internal review process were about $51 per claim file handled in 2012 ($51 in 2011).

Claim costs (excluding current-year claim administration costs) increased by $590 million, a 42-percent increase, in 2012, as shown in the table below. Increases in benefit payments were $123 million, and increases in the changes in actuarial valuation of benefit liabilities were $467 million. Of the $467-million increase, changes in liability assumptions for the mortality basis and net health care discount rate accounted for $170 million and $159 million, respectively. Further information regarding the increases in benefit payments are provided in the Management Discussion and Analysis section on pages 55-56, the changes in actuarial valuation of benefit liabilities on page 56, and increases in benefit liabilities on pages 58-59.

Increase in claim costs from 2011 to 2012

($ millions)	Benefit payments	Change in actuarial valuation of benefit liabilities	Total
Short-term disability	8	3	11
Long-term disability	65	64	129
Survivor benefits	2	(1)	1
Health care	36	26	62
Vocational rehabilitation	12	(10)	2
Claim administration	14	56	70
Non recurring costs:			
Mortality basis change	—	170	170
Health care benefit net discount rate change	—	159	159
Total	**137**	**467**	**604**
Total excluding current year claim administration	**123**	**467**	**590**

Appendix B: Comparing Results with Other Jurisdictions

Each workers' compensation organization in Canada is subject to a distinct set of legal requirements, policies, and operating issues, so it is difficult to make direct comparisons between WorkSafeBC's performance and that of other jurisdictions.

To enable performance comparisons, the Association of Workers' Compensation Boards of Canada (AWCBC) compiles a set of standardized financial and statistical indicators. These indicators are compiled (unaudited) using data collected from all Canadian jurisdictions, including WorkSafeBC. Most of these indicators are not directly comparable with the 11 key objective/performance indicators used by WorkSafeBC; however, in some cases WorkSafeBC's performance can be approximately compared to that of other workers' compensation organizations. With the exception of key objective/performance indicator #9 (which uses 2012 numbers) all comparisons are made using 2011 data — the most current information available at the time of publication.

Key objective #1: Reduce the provincial injury rate

2012 target: 2.6 or less claims first accepted per 100 person-years of employment

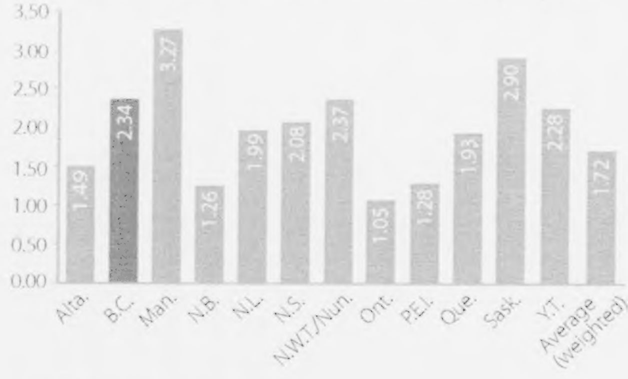
2012 result: 2.34 claims first accepted per 100 person-years of employment (see page 24)

2013–2015 targets: 2.6 or less, 2.6 or less, 2.6 or less

Related comparison: The AWCBC publishes an annual, province-by-province comparison of injury frequency using a standardized calculation. However, injury frequency cannot be directly compared between provinces, because injury rates are influenced by the industries present in each jurisdiction.

The following chart reflects the relative injury frequency for all provinces, as published in January 2012 (based on 2011 source data).

Injury frequency
(per 100 workers of assessable employers)



Source: AWCBC Key Statistical Measures 2011

Key objective #2: Improve return-to-work outcomes

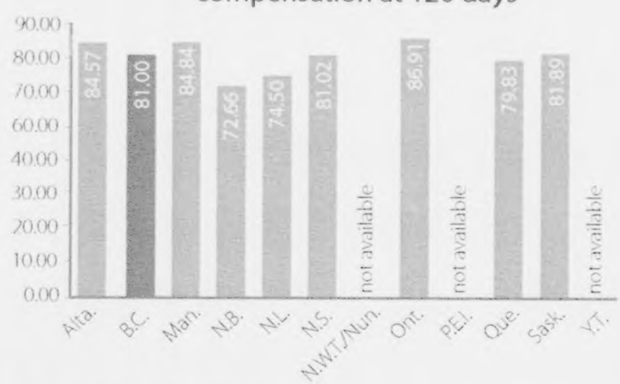
2012 target: 82 percent

2012 result: 80 percent (see page 27)

2013–2015 targets: 80 percent, 81 percent, 82 percent

Related comparison: The AWCBC publishes an annual, provincial/territorial comparison of claim duration using a standardized calculation to measure how soon injured workers leave the wage-loss compensation system permanently. While not fully equivalent with the WorkSafeBC KPI #2 measurement of return to work outcomes, the AWCBC measurement of the percentage of new lost-time claims that have received their last day of wage-loss benefits 120 days after the injury provides a comparable measure. The following table provides the most current data available.

Percentage of wage-loss claims off compensation at 120 days



Source: AWCBC Key Statistical Measures 2011

Key objective #3: Improve return-to-work outcomes for workers in vocational rehabilitation

Related comparison: No comparable data is available.

Key objective #4: Improve timeliness of initial short-term disability payments

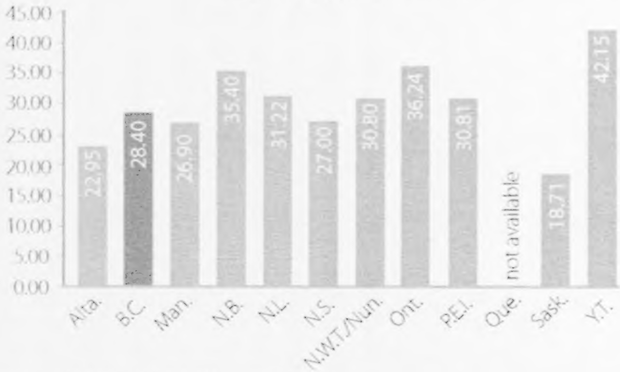
2012 target: 22 days

2012 result: 19.7 days (see page 30)

2013–2015 targets: 21 days, 21 days, 21 days

Related comparison: The AWCBC publishes an annual province-by-province comparison of the timeliness of initial short-term disability payments using a standardized calculation that is slightly different from WorkSafeBC's method of calculation. The chart below reflects the average number of calendar days starting from the date of injury to the date of first payment, as published in January 2013 (based on 2011 source data).

Average calendar days from injury to first payment issued



Source: AWCBC Key Statistical Measures 2011

[illegible]

Key objective #5: Improve injured workers' rating of overall experience

Related comparison: No comparable data is available.

Key objective #6: Improve employers' rating of overall experience

Related comparison: No comparable data is available.

Key objective #7: Raise public confidence

Related comparison: No comparable data is available.

No other workers' compensation system in Canada reports on its ability to raise public confidence, nor uses a similar indicator to determine its reputation with the communities it serves. Several provincial public and private organizations have conducted surveys similar to the one carried out on behalf of WorkSafeBC; however, these results are no longer available to the public. Nonetheless, similar survey results are in a range from a high of 95 percent to a low of 55 percent among participating groups.

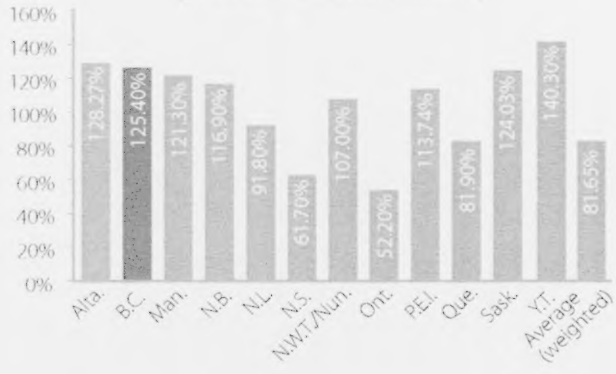
Key objective #8: Achieve 100 percent of the target asset level

2012 target: 87 percent

2012 result: 89 percent (see page 36)

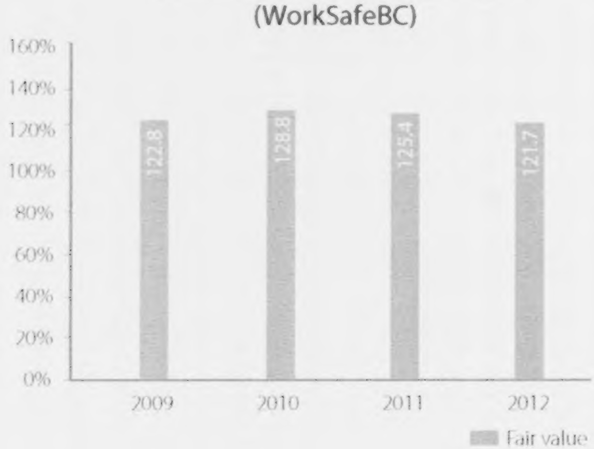
2013–2015 targets: 84 percent, 81 percent, 81 percent

Related comparison: For the purposes of comparison with other provinces and territories in Canada, the only other metric of funding adequacy that's available, and used by the AWCBC, is total assets divided by total liabilities. The following chart shows the average funding level of each provincial and territorial workers' compensation system, published in January 2013, stated in terms of its market value and based on year-end 2011 data.



Source: AWCBC Key Statistical Measures 2011

WorkSafeBC's funding level, with 2009 and 2010 restated to reflect accounting polices based on International Financial Reporting Standards (IFRS), is also shown for comparative purposes. In comparing the two measures of funding sufficiency — achieve 100 percent of the target asset level versus assets over liabilities — 93 percent achievement against the target asset level equates to 125-percent asset coverage over liabilities, because WorkSafeBC aims to have more assets than liabilities, in the form of various reserves. (See Note 11 of the consolidated financial statements, page 104.)



Key objective #9: Attain an aggregate premium rate between $1.25 and $2.25 per $100 of assessable payroll

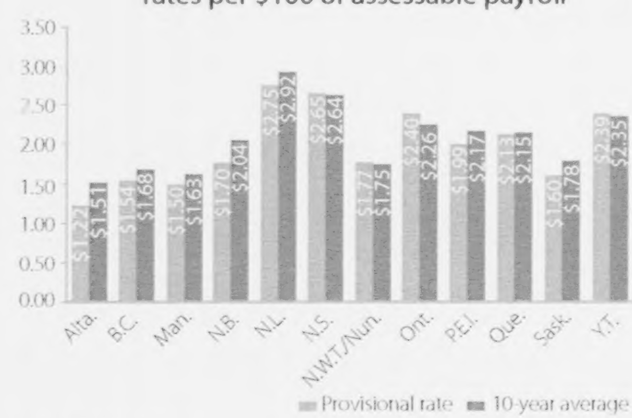
2012 target: $1.51

2012 result: $1.48 (see page 39)

2013–2015 targets: $1.55, $1.68, $1.81

Related comparison: Each jurisdiction in Canada establishes its own assessment rates. The average assessment rate reflects the weighted average premium for assessable employers within the scope of coverage for each province. The rates charged by other provinces reflect the unique mix of industries, injury rates, benefits, prevention activities, and funding needs, and are not directly comparable to B.C. AWCBC data are calculated in a standard way and provide a general indicator of the range of employer costs for workers' compensation coverage.

The following chart shows the average assessment rates for 2012, which is different from the aggregate rate used in key objective/performance indicator #9. The average assessment rate is a base rate and the aggregate rate reflects adjustments for changes in industry mix and experience rating during the year.



Source: AWCBC Key Statistic

This chart illustrates that in comparison with those in other provinces and territories, B.C. rates are competitive and have been stable.

Key objective #10: Control administration costs (per $100 of assessable payroll)

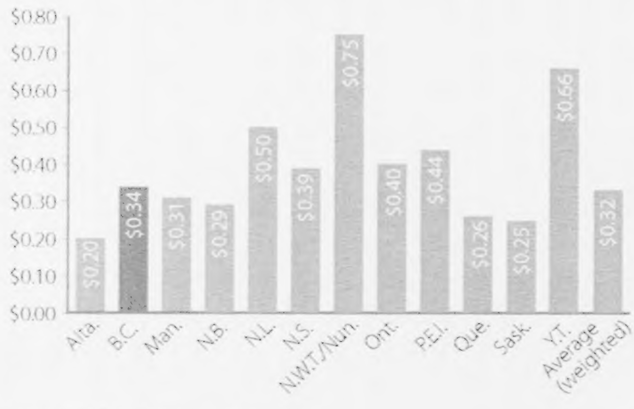
2012 target: $0.36

2012 result: $0.35 (see page 41)

2013–2015 targets: $0.35, $0.34, $0.34

Related comparison: The AWCBC calculates administration costs per $100 of assessable employer payroll according to a standardized formula. The following chart shows the administration costs per $100 of assessable employer payroll for each provincial jurisdiction as published in January 2013 (based on year-end 2011 data).

Administration costs per $100 of assessable payroll



Source: AWCBC Key Statistical Measures 2011

Key objective #11: Improve decision making throughout WorkSafeBC, ensuring consistency with legislation and policy

Related comparison: No comparable data is available

Senior Executive

David Anderson
President and Chief Executive Officer

Roberta Ellis
Senior Vice-President, Human Resources and Corporate Services

Brian Erickson
Senior Vice-President, Finance/IT and Chief Financial Officer

Diana Miles
Senior Vice-President, Operations

Pamela Cohen
Vice-President and Chief Review Officer

Allan G. Johnson
Vice-President, Prevention Services

Kevin La Freniere
Vice-President, Business Analysis,
Corporate Communications, and Marketing

Ian Munroe
Vice-President, Claims Services

Ed Bates
General Counsel and Secretary to WorkSafeBC

Online viewing

For an electronic copy of this report, visit our website at WorkSafeBC.com.

Feedback

To comment on WorkSafeBC's *2012 Annual Report and 2013–2015 Service Plan*, contact Terence Little, Director of Corporate Communications, at 604-276-7666 or terence.little@worksafebc.com.

Endnotes

1. The Accident Fund provides for the payment of compensation, outlays, and expenses referred to in Section 36 of the *Workers Compensation Act*. It is made up of the portfolio of investments and other WorkSafeBC assets.
2. As compensation benefits are indexed to inflation, WorkSafeBC's investments are expected to provide sufficient returns to cover inflation plus the 3.0 percent discount rate used to calculate the present value of future benefit liabilities. Surplus investment returns result when returns are in excess of the required rate of return.
3. On May 31, 2012, the B.C. legislature passed Bill 14, *Workers Compensation Amendment Act, 2011*. Bill 14 amends section 5.1 of the *Workers Compensation Act*, changing coverage for mental disorders caused by work. http://www.worksafebc.com/regulation_and_policy/legislation_and_regulation/new_legislation/bill_14/default.asp
4. In accordance with the *Workers Compensation Act*, the annual report and service plan must be provided each year to the minister by March 25 and March 31, respectively. A request for legislative change has been submitted to the Ministry of Labour to amend the delivery dates for both these reports to April 30. This extension is necessary to comply with International Financial Reporting Standards requirement that financial instruments be reported at fair market value; for some instruments, fair market value cannot be determined until the end of March each year.
5. For priorities as defined by the strategic plan, see page 22.
6. While the information contained in this annual report reflects the organization's actual performance for the period from January 1, 2012, through December 31, 2012, all material fiscal assumptions and policy decisions made up to April 19, 2013, have been considered in developing this publication.
7. WorkSafeBC changed key objective/performance indicator #8 in 2008. In 2011, the Board of Directors approved a new strategic plan that included a change in the focus of key objective/performance indicator #2. The other nine key objective/performance indicators in this report have been applied as a group since 2003. Most key objective/performance measures have been applied for much longer and can be found in past WorkSafeBC annual reports dating back 11 years or more.
8. Results for 2010 are shown for comparative purposes, on both the IFRS basis and according to Canadian generally accepted accounting principles (GAAP) that were in place through 2010.
9. Employers are assigned to classification units based on their main industrial activity. Industrial activities are organized into three levels: sectors, subsectors, and classification units. The classification structure consists of seven sectors, 24 subsectors, and 619 classification units.
10. The provincial injury rate is calculated in accordance with the Association of Workers' Compensation Boards of Canada's definition (see Appendix B, page 117). Wage-loss injuries, fatality claims (cases involving funeral expenses and/or survivor benefits), and long-term disability claims that occurred in 2012 and were first paid that year (or estimated to be initially paid within the first quarter of 2013) are counted and expressed as a ratio to 100 person-years of employment. Injuries arising from and employment related to deposit-class employers are excluded from this calculation. A person-year is the equivalent of one person working all year on either a part or full-time basis. Estimates for person-years are based on gross payrolls submitted by employers, and on matching wage-rate data.
11. The agriculture, fishing, forestry, and oil and gas industries are categorized as the Primary Resources Sector. The health care industry is included in the Public Sector. A complete list of sectors can be found in *WorkSafeBC Statistics 2012*, available online at WorkSafeBC.com.
12. A reduction in the injury rate of just 1.0 percent (from 2.34 to 2.32, for example) translates into approximately 500 fewer workers suffering wage-loss injuries, around $9.6 million less in claim costs, and a gain of 29,600 productive work days for B.C.'s economy.
13. If employment in a sector with a relatively high injury rate (such as construction) grows, while employment in a lower-risk sector (such as retail) declines, the provincial injury rate could still increase even if the injury rate remains the same or drops in both sectors.
14. These 2012 injury rate estimates are preliminary as of December 2012 and based on available claim and employment information and subject to estimation error and change. They consider employment estimates from Statistics Canada's *Labour Force Survey* and the *Survey of Employment, Payroll and Hours*. Injury rates for 2012 will be available in July 2013.
15. WorkSafeBC reviews historical incidents and claim statistics from all industry sectors in B.C., identifying industries with significant exposures and greater risk of injuries and fatalities.
16. This measure helps WorkSafeBC identify and focus prevention activities on those industries and risks most likely to severely harm workers. Over time, applying a serious injury rate may help the organization identify new risks and assess the effectiveness of its safety programs or initiatives. More information on the serious injury rate is available in *WorkSafeBC Statistics 2012*, available online at WorkSafeBC.com.
17. Health care-only claims are excluded from the serious injury rate calculation.
18. High health care costs equivalent to 28 or more days of wage loss (*WorkSafeBC Statistics 2012*).
19. Key statistical measures (KSMs) are outlined in Appendix B (see page 117).
20. Timeliness of initial short-term disability payments: the 19.7-day timeliness statistic represents 75 percent of injured workers who receive payments directly from WorkSafeBC (timeliness of 26.2 days) and 25 percent of injured workers who continue to be paid by their employers ('experienced' timeliness of zero days).
21. WorkSafeBC surveys 250 employers twice a year — once in the spring and once in the fall.
22. WorkSafeBC determines the target level of the Capital Adequacy Reserve using an approach comparable to that prescribed for private insurers by the federal Office of the Superintendent of Financial Institutions (OSFI). This approach determines the minimum capital requirement by considering the insurer's risk profile. OSFI requires that private insurers maintain levels of at least 150 percent of the minimum capital requirement. By resolution, using OSFI methodology, WorkSafeBC's Board of Directors has set a target capital requirement of 160 percent of the minimum capital requirement level.
23. The measure of funding adequacy used by the Association of Workers' Compensation Boards of Canada (AWCBC) is total assets over total liabilities (see Appendix B, page 119). For example, in 2012, actual assets were $13,152 million, which represents 122 percent of the liabilities of $10,802 million, but 89 percent of the current target asset level of $14,826 million.
24. Under the *Workers Compensation Act*, short-term disability, long-term disability, and survivor benefits are indexed against the annual increase in the consumer price index (CPI), as measured by the year-over-year CPI at October each year. These benefits are indexed to inflation at CPI growth less 1.0 percent, with a maximum of 4.0 percent and a minimum of zero. The inflation adjustments applied to benefit rates were 1.9 percent at January 1, 2012, (2.9 percent CPI growth less 1.0 percent) and 0.2 percent at January 1, 2013 (1.2 percent CPI growth less 1.0 percent).
25. In accordance with the 2007 Board of Directors resolution defining the use of the Capital Adequacy Reserve.
26. The aggregate premium rate reflects the overall financial impact of workers' compensation premiums on the assessable payroll of insured employers in British Columbia. The actual premium charged to an individual firm varies depending on its insurance rate group and experience rating. The aggregate premium rate shown here differs from the average base rate published each year at the time premium rates are established for the upcoming assessment year. The published base rate is a composite of all individual industry base rates. It is published in the WorkSafeBC rate and classification list and averaged on the basis of long-term industry payroll growth rates. The aggregate premium rate differs from this published base rate in that it reflects the actual, rather than projected, payroll mix by industry. Further, the aggregate premium rate differs from the base rate owing to imbalances arising from the experience rating plan. This aggregate premium rate can be viewed as a collection rate: it reflects the actual premiums owed by employers for a particular assessment year, expressed as a percentage of the total assessable payroll.

27. Since WorkSafeBC's premiums are collected in arrears, the actual funds collected and corresponding payrolls for a given year cannot be determined until well into the following year. Thus, the aggregate rate shown for 2011 and previous years reflects the final collected rate. The rate shown for 2012 and future years is an estimate based on the anticipated mix of industries, assessable payrolls, known adjustments, and anticipated impacts of various strategies and initiatives.

28. The 2012 losses used for 2013 rate-setting were based on financial projections as of March 31, 2012.

29. In 2012, WorkSafeBC maintained separate financial accounting for 67 different rate groups. Each rate group is responsible for its own financial performance, represented by the "rate group balance." The balance represents the net financial condition of a rate group (i.e., historical assessments, plus investment income, less claims costs, administration costs, and contributions to reserves). If this balance is positive, the rate group is in surplus; if it is negative, the rate group is in deficit.

30. WorkSafeBC's administration costs for key objective/performance indicator #10 are defined by the Association of Workers' Compensation Boards of Canada (AWCBC). In accordance with AWCBC's calculation method WorkSafeBC does not include administration costs associated with prevention, treasury/ investments, third-party recoveries and related legal costs, grants and awards, reviews and appeals, workers' and employers' advisors, sessional physicians, external medical service providers or costs related to self-insured employers. Among these items, the highest cost is associated with prevention initiatives which, in 2012, was $0.08 per $100 of assessable payroll.

31. Ministry of Finance estimates of B.C.'s labour income growth for 2013 through 2015, as published in the B.C.'s *Budget and Fiscal Plan 2013/14–2015/16*, were used to project future payrolls.

32. The method of calculating the administration cost ratio targets has been modified to exclude depreciation and project expenses of the prevention and review areas and other prevention-related activities, consistent with calculations adopted by other workers' compensation organizations.

33. For premium rate-setting purposes, WorkSafeBC uses a smoothed accounting approach — investment returns and actuarial gains or losses relating to employee benefit plans are amortized over a five-year period. This accounting approach moderates the effect of capital market volatility on financial results and premium rates. See the Financial Context section, page 12, for further information.

34. WorkSafeBC's investments are expected to produce a long-term average real return of 3.0 percent (equal to the discount rate used to calculate liabilities) over and above the inflation rate (as measured by the annual increase in the consumer price index (CPI)), i.e., the required return is CPI growth plus 3.0 percent. The long-term objective of WorkSafeBC's Investment Committee is to earn a real rate of return of 3.5 percent, slightly higher than the 3.0 percent discount rate used to calculate liabilities.

35. Self-insured employers are sometimes referred to as deposit account employers. These employers do not pay premiums based on assessable payroll; rather, they are required to pay WorkSafeBC the cost of all compensation benefits distributed to their workers, plus a share of administration and other costs. They are required to maintain a deposit balance in their accounts from which amounts for claim costs and administration are drawn monthly. These employers include the provincial and federal governments and certain other companies.

36. The $1.54 base assessment rate for 2012 is the rate published at the time the assessment rates were set in 2011. This compares to the current estimate of the aggregate 2012 rate, of $1.48. The published base rate is a composite of all individual industry base rates. It is published in the WorkSafeBC rate and classification list and averaged on the basis of long-term industry payroll growth rates. The aggregate premium rate differs from this published base rate because it reflects the actual (based on most recent information available), rather than projected, payroll mix by industry. Further, the aggregate premium rate also differs from the base rate owing to imbalances arising from the experience rating plan. The aggregate premium rate can be viewed as a collection rate: it reflects actual premiums owed by employers for a particular assessment year, expressed as a percentage of the total assessable payroll.

37. The inflation-sensitive category includes asset classes with valuations that are affected by the inflation rate over the long term, such as real estate and real return bonds. Please refer to Note 4 of the consolidated financial statements for more detail.

38. Effective March 2011, the investment policy asset allocation targets were set at 33 percent fixed-income (allowable range 20–45 percent), 39 percent equity (allowable range 25–50 percent), and 28 percent inflation-sensitive (allowable range 15–40 percent).

39. The market rate of return on investment is reported by WorkSafeBC's fund manager, British Columbia Investment Management Corporation (bcIMC), in its year-end report. To align with WorkSafeBC's change from the previous Canadian generally accepted accounting principles (Canadian GAAP) to International Financial Reporting Standards (IFRS), the market return for 2010 (the transition year for IFRS) has been restated by bcIMC to account for valuation adjustments for a number of illiquid assets.

40. Total claim costs and changes in benefit liabilities were both on a downward trend from 2001 to 2010 (though these costs did not decrease every consecutive year) before increasing in 2011. Excluding non-recurring items, total claim costs decreased from $1,649 million in 2001 to $1,291 million in 2010, then increased to $1,645 million in 2011; changes in benefit liabilities reduced from $562 million in 2001 to negative $35 million in 2010, then increased to $265 million in 2011.

41. The Capital Adequacy Reserve was originally called the Investment Fluctuation Reserve when it was created in 2005, and renamed in 2007.

Workplace health and safety is everyone's responsibility

All workers are entitled perform their work duties in safe and healthy work environments where hazards are minimized and controlled. The key to maintaining a safe and healthy workplace lies in joint action that involves everyone — employers, workers, supervisors, and other stakeholders — working together to fulfill their responsibilities and mitigate the risk of injury, disease, and death.

Employer responsibilities

- Provide a safe and healthy workplace
- Ensure that workers are adequately trained. Keep written records of training
- Establish and maintain a comprehensive occupational health and safety program, including a written health and safety policy and an incident investigation procedure
- Support supervisors, safety coordinators, and workers in their health and safety activities
- Take action immediately when a worker or supervisor tells you about a potentially hazardous situation
- Initiate an immediate investigation into incidents, and immediately report serious incidents to WorkSafeBC
- Provide adequate first aid facilities and services
- Provide personal protective equipment as required

Supervisor responsibilities

- Instruct workers in safe work procedures
- Train workers for all tasks assigned to them, and check that their work is being done safely
- Ensure that only authorized, adequately trained workers operate tools and equipment or use hazardous chemicals
- Ensure that equipment and materials are properly handled, stored, and maintained
- Enforce health and safety requirements, and correct unsafe acts and conditions
- Identify workers with problems that could affect safety at the worksite. Follow up with interviews and referrals where necessary
- Develop appropriate health and safety rules and inspect the workplace for hazards

Worker responsibilities

- Know and follow health and safety requirements affecting your job
- Use all personal protective equipment when and where required
- Don't assume you can do work you've never done before. Ask your employer for training so you know how to do it safely before you begin
- Always work safely and encourage your co-workers to do the same
- Immediately correct unsafe conditions or report them right away to your employer
- Immediately report any injury to a first aid attendant or supervisor
- If you have any doubts about your safety, talk to your employer. Take the initiative — make suggestions to improve health and safety at work

Worker rights

- Know about workplace hazards
- Participate in workplace health and safety activities
- Refuse unsafe work

For more information

If you have questions about workplace health and safety issues, call the Prevention Line at 604 276-3100 or toll-free within B.C. at 1-888-621-SAFE (7233), or visit WorkSafeBC.com and follow the link to Safety at Work, where you'll find resources that can be downloaded free of charge. You can also purchase safety publications and DVDs at www.worksafebcstore.com.